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Standing Committee on Public Accounts



Annual Report
1989

2nd Session, 34th Parliament
39 Elizabeth II

STANDING COMMITTEE ON
PUBLIC ACCOUNTS



COMITÉ PERMANENT SUR
LES COMPTES PUBLICS

LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

Queen's Park
March 1990

The Honourable Hugh Edighoffer, M.P.P.,
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour
to present its Report and commends it to the House.

A handwritten signature in dark ink, appearing to read 'Ed Philip'.

Ed Philip, M.P.P.
Chair



STANDING COMMITTEE ON PUBLIC ACCOUNTS

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PREAMBLE

The 1989 Annual Report of the Standing Committee on Public Accounts documents the Committee's activities for the period April to December 1989. This Report provides a summary of the investigative process employed by the Committee and an overview of the 1989 agenda and Committee reports.

In 1989 the Standing Committee on Public Accounts completed nine reports, six of which are being tabled as part of this Report. The remaining three reports were tabled under separate cover in the Committee's First Interim Report 1989 released in July 1989 and Second Interim Report 1989 released July 1989.

The Committee would like to take this opportunity to extend its appreciation to the members of the public who met with the Committee on the field trips and the Ministry officials who organized the tours of provincial facilities. As discussed in this Report, these visits have been most beneficial to the Committee in fulfilling its mandate.

Finally the Committee would like to acknowledge the important role of the Office of the Provincial Auditor in providing assistance to the Committee throughout the investigative process and the assistance provided by the Clerk, Ms Tannis Manikel and Ray McLellan of the Legislative Research Service.

COMMITTEE'S ROLE AND AGENDA 1989

The Standing Committee on Public Accounts is empowered under the Standing Orders of the Legislative Assembly to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts which are permanently referred to the Committee. In addition, the Committee reviews subjects referred to it by a resolution of the Legislative Assembly. The primary objective is to attempt to ensure accountability of Cabinet and the bureaucracy in administrative matters. The Committee frequently undertakes investigations on its own initiative.

Pursuant to Standing Order 104(j), the Committee's "Terms of Reference", the Members conduct investigative hearings and make site visits in order to examine and report to the Legislature on a broad range of matters, which include:

- the reliability and appropriateness of information in the Public Accounts;
- the collection of and accounting of revenues;
- the maintenance of expenditures within the limits and for the purposes authorized by the Legislative Assembly;
- the adequacy of safeguards to protect assets from loss, waste, and misappropriation;
- the regard for economy in the acquisition of goods and services;
- the regard for efficiency in operations;
- the effectiveness of programs in achieving their stated objectives;
- the examination by the Sub-Committee of the full Committee, in confidence, of the Premier's travel expenditures, with any questions or concerns to be brought forward to the full Committee for review; and
- the consideration of proposed changes to legislation related to legislative accountability.

Reporting Methodology

The Committee has benefitted in recent years from new procedures and approaches which increase its effectiveness and enhance the accountability of government through the following initiatives:

- In-depth briefings by staff of the Legislative Research Service help the Committee to assess the Auditor's findings and develop lines of inquiry prior to each hearing;
- The Committee at times issues reports on matters of a particularly pressing nature, in addition to its Annual Report;
- The Committee visits facilities as part of an initial investigation and also as an instrument of follow-up to ensure compliance; and
- There has been an increased integration with the work of other legislative committees. The Committee has recommended that another Committee conduct an investigation in those instances where it deems that follow-up is needed to deal with policy issues. This approach helps to ensure that the Committee does not deal with policy issues as they arise and maintains the focus on value-for-money matters.

The Committee has in recent years continued to expand its reporting on the audits conducted by the Provincial Auditor. The Committee's approach has evolved beyond formal reviews and discussions with delegations to include field trips. The complexity of the issues at times requires a "hands-on" approach, allowing the Members the opportunity to meet with professionals and lay people in the field to discuss the concerns of the Provincial Auditor and to experience the practical day-to-day circumstances encountered by professionals and clients.

The Committee's evolving report methodology has also been expanded to incorporate a hands-on, "field trip approach" which takes into account the events at the client level in the delivery of government services. It endorses a dynamic, pro-active approach while considering the observations and recommendations of the Provincial Auditor. The Committee's investigation into mental health care in Ontario and forest firefighting are good examples of this approach adopted for complex audits requiring detailed site analysis and follow-up reporting.

The Committee's new procedures and approaches to increase its effectiveness and strengthen the accountability process have been beneficial. The investigation into mental health care for example has demonstrated the increasing importance of follow-up site inspections and supplementary reports. This approach has been constructive in identifying ways in which to save funds and also to identify innovations and improvements which may have broad applications beyond the particular area in which they are being used. The Committee feels that it is useful to recommend innovative practices to other divisions, branches and Ministries.

In the Auditor's 1987 Annual Report the Ministry of Health audit assessed the overall delivery of mental health care in the province. From the Auditor's perspective, the scope and objective of the audit was broad, touching on both the more formal administrative aspects and budgeting, and the evaluation of the service delivery system within the community and homes for special care.

The audit involved elements of program delivery that have a direct effect on people's lives, in contrast to the more traditional financial aspects of an audit. The evaluation of "services to the public" is difficult to quantify because it requires an assessment of program delivery and the resultant effect on the "quality of life" for segments of society. The conclusions reached by the Auditor covered, for example, the effect of substandard conditions in provincial psychiatric hospitals on patient care and stress levels for employees in the work environment; the consequences of high occupancy rates in the hospitals and the concern to move patients into the community; the inadequate monitoring of patients discharged into the community; and the shortage of community housing and support services.

The Committee visited four mental health care facilities in Ontario and the Members found the professional and support staff at the hospitals to be most open and informative. This positive exchange resulted in a very beneficial sharing of information on both the part of the Members of the Standing Committee on Public Accounts and the hospital staff. The concerns of the Auditor were discussed openly and the staff pointed out improvements and continuing problems in the mental health care system.

This "field-trip" approach accomplished several objectives in the visit to the firefighting centres and the psychiatric hospitals. The professionals and users of the services are able to discuss issues and provide information to the Members on a first-hand basis. Secondly, the facility being visited is made aware that the Standing Committee on Public Accounts is primarily concerned with ensuring that money is spent with due consideration to economy. Thirdly, the site visits provide Members with a valuable educational experience which permits them to directly experience the audit environment and to formulate recommendations in the context of the visit. Following the initial report, a follow-up report emphasizes the importance of the issues to the body being audited and the seriousness of the Committee's endeavours. Finally, the site visits may identify issues not addressed in the Auditor's report, but subjects that the Members feel require a follow-up in Committee or by the Auditor.

COMMITTEE REPORTS (1989)

In 1989 the Standing Committee on Public Accounts completed reports on ten audits prepared by the Office of the Provincial Auditor. As mentioned in the Preamble, the 1989 Annual Report of the Committee includes six reports in their entirety on the following subjects.

- Problems in Mental Health Care - Ministry of Health
Section 4.9 of the 1987 Annual Report of the Provincial Auditor
- Government Advertising and Communication Expenditures
Section 2.4 of the 1988 Annual Report of the Provincial Auditor
- Weak Controls Over Water and Sewage Treatment Plants, Ministry of the Environment
Section 3.7 of the 1988 Annual Report of the Provincial Auditor
- Improved Cost Controls and Resources Monitoring Required, Forest Firefighting, Ministry of Natural Resources
Section 3.11 of the 1988 Annual Report of the Provincial Auditor
- Improved Efficiency Required, Design Activity, Ministry of Transportation
Section 3.13 of the 1988 Annual Report of the Provincial Auditor
- Opportunities for Cost Reductions, Municipal Roads Program, Ministry of Transportation
Section 3.14 of the 1988 Annual Report of the Provincial Auditor

In addition to the Committee's six reports in this document, the Committee tabled two additional reports in 1989, the First and Second Interim Reports. The First Interim Report 1989, tabled in July 1989, included the Committee's response to two audits; namely, "Tax Collection, Motor Fuels and Tobacco Branch, Ministry of Revenue" and secondly "Monitoring Procedures, General Welfare Assistance Program, Ministry of Community and Social Services." These audits were included in the 1988 Annual Report of the Provincial Auditor, Sections 3.12 and 3.3 respectively.

In July 1989, the Second Interim Report 1989 on aviation and fire management in the Ministry of Natural Resources was tabled in the Legislature. A supplementary report on this audit was prepared following the Committee's site visits to forest fighting centres in North Bay, Thunder Bay and Dryden and is included in this 1989 Annual Report.

SPECIAL AUDITS

During 1989, the Committee passed three motions requesting the Provincial Auditor to conduct audits on the following subjects:

- The Ministry of Housing contract with Mr. Dino Chiesa;
- Ontario Place Corporation; and
- The Ministry of Industry, Trade and Technology's promotional book and video contract entitled "Ontario - Share the Vision."

The Provincial Auditor submitted the report on the audit on the Ministry of Housing contract with Mr. Dino Chiesa on October 10, 1989. The Committee's report on the findings of this audit are complete and will be tabled in the spring of 1990.

On December 7, 1989 the Provincial Auditor completed the special audit of Ontario Place Corporation. The Committee's report on this subject will be tabled as soon as possible.

The Committee instructed the Provincial Auditor in November 1989 to conduct an audit of the production of the book and video entitled "Ontario - Share the Vision." At the time of the finalization of this Report the audit had not been submitted to the Committee for consideration.

The hearings into the Stadium Corporation of Ontario constituted part of the on-going review of the facility. The Committee included a report entitled "Special Review of the Financing of the SkyDome Project" in the Committee's 1987-1988 Report but decided not to prepare a report at this time given that the SkyDome has not yet completed its first year of operation.

COMMITTEE HEARINGS AND VISITS

During 1989 the Committee held extensive hearings, conducted site visits to facilities in southern and northern Ontario and tabled eight reports which cover nine audit reports.

Hearings Schedule and Committee Visits

The Committee met during the months of April through December 1989 to conduct in-depth hearings, visit government facilities, meet with individuals and groups and to prepare reports.

As part of the follow-up procedure to its previous report on the problems in mental health care within the Ministry of Health, the Committee visited the Queen Street Mental Health Centre, the Hamilton Psychiatric Hospital, the North Bay Psychiatric Hospital and the Lakehead Psychiatric Hospital. A second report was prepared on the Committee's findings in 1989 and is enclosed in this Report.

In conjunction with the Committee's travel to the psychiatric facilities in Northern Ontario, the Members met with officials of the Aviation and Fire Management Centres in North Bay, Thunder Bay and Dryden, on the invitation of the Ministry of Natural Resources, to discuss the Auditor's conclusions and recommendations on improved cost controls and the requirement for resources monitoring in forest firefighting.

During the hearings on the Stadium Corporation of Ontario, the Members visited the SkyDome at the invitation of the President of SkyDome.

In total the Committee held hearings over a 35 day period, at times with both morning and afternoon sessions, excluding other meetings such as those of the Sub-committee. The Members had the opportunity to discuss the audits with numerous bodies including officials from the following:

Hearings

- Management Board of Cabinet;
- Ministry of Health;
- Ministry of Energy;
- Ministry of Tourism and Recreation;
- Ministry of Community and Social Services;
- Ministry of Revenue;
- Ministry of Natural Resources;

- Ministry of Transportation;
- Stadium Corporation of Ontario (SkyDome);
- Ministry of Housing;
- Ministry of the Environment;

Site Visits

- Hamilton Psychiatric Hospital, Ministry of Health, Hamilton;
- Queen Street Mental Health Centre, Ministry of Health, Toronto;
- North Bay Psychiatric Hospital, Ministry of Health, North Bay;
- Aviation and Fire Management Centre, Ministry of Natural Resources, North Bay;
- Aviation and Fire Management Centre, Ministry of Natural Resources, Thunder Bay;
- Lakehead Psychiatric Hospital, Ministry of Natural Resources, Thunder Bay;
- Aviation and Fire Management Centre, Ministry of Natural Resources, Dryden;
- Stadium Corporation of Ontario (SkyDome).

CONFERENCE ATTENDANCE AND VISITING DELEGATIONS

The Standing Committee on Public Accounts participated in two conferences during 1989, the Canadian Council of Public Accounts Committees' Conference and the Canadian Comprehensive Auditing Foundation Conference.

Canadian Council of Public Accounts Committees Conference

The Chairman and Committee staff attended the eleventh Annual Meeting of the Canadian Council of Public Accounts Committees (CCPAC) in Edmonton, Alberta on July 10, 11 and 12, 1989.

The business agenda included extensive discussions on the Committee activities and operation by each delegation and the review of the report entitled Guidelines for Public Accounts Committees in Canada by the CCPAC sub-committee. This document is in the draft stages and will be the subject of further discussion at the twelfth annual meeting. It covers the history and development of public accounts committees in Canada, their role, rights and responsibilities and the committee membership and meeting procedures.

Mr. Jean-Pierre Boisclair, Executive Director, Canadian Comprehensive Auditing Foundation addressed the CCPAC on the subject of Comprehensive Auditing. The Foundation is a national organization established to help strengthen management, accountability and audit in the public sector. According to the Foundation's Board, the work concentrates on ways in which managers can ensure that good value for money is obtained from their administrative practices, the manner in which they report their accountability for achieving economy, efficiency and effectiveness, and the role audit plays in that reporting.

Mr. E. Philip, MPP, the Chairman of Ontario's Standing Committee on Public Accounts, distributed a case study prepared on the basis of the Committee's work over the past two years on mental health care within the Ontario Ministry of Health. The chairman emphasized the investigative nature of the Committee's work and the importance of follow-up reviews to Committee reports. In this paper particular stress was placed on the benefits derived from site visits and the importance of being able to discuss staff concerns at the delivery level.

This year the CCPAC conference had the pleasure of input from an Australian delegation which included Mr. John Taylor, Auditor General, Australia; Mr. Kevin Madden, Deputy Auditor General, Queensland, and representatives of the New South Wales Public Accounts Committee. This delegation had the opportunity to discuss the non-partisan nature of their Committee work, the importance of on-site visits to government facilities, the fact that investigations are carried out on the Committee's initiative and finally that the need for follow-up reviews is necessary to ensure compliance.

The Canadian Comprehensive Auditing Foundation Conference

The Chairman, Members and staff attended the 10th Anniversary Conference of the Canadian Comprehensive Auditing Foundation Conference (CCAF) in Toronto on November 19-21, 1989.

This conference was particularly significant because it marked the end of the first decade in the development of comprehensive auditing in Canada. Specifically, the Conference examined different approaches to comprehensive auditing. The Foundation is now at the point at which practitioners, management and clients have several approaches to choose from in applying the concept of comprehensive auditing. The ultimate objective is to move toward more effective and accountable administration of public policy.

The Chairman had the opportunity to address delegates on the activities of the Ontario Standing Committee on Public Accounts at the session entitled "Public Accounts Committees and the Legislature - Closing the Loop on Accountability." The Chairman, Mr. Philip, discussed government accountability in Ontario, with specific reference to the document, Guidelines for a Model Public Accounts Committee in Canada. The relationship between the Office of the Provincial Auditor and the Committee was discussed with reference to follow-up procedures, special audits, and powers and responsibilities to ensure accountability by government in the use of public funds.

Visiting Delegations

In 1989 the Committee had the privilege of receiving two visiting delegations from Australia. Members of the New South Wales Public Accounts Committee who attended the Canadian Council of Public Accounts Committee attended a Committee session and the Members hosted a luncheon for the delegates. A second group from the Auditor General's Office, State of Victoria, Australia met with the Committee and also attended a Committee session at Queen's Park.

**PROBLEMS IN
MENTAL HEALTH CARE - MINISTRY OF HEALTH
(Section 4.9 of the 1987 Annual Report
of the Provincial Auditor)**

PREAMBLE

The Standing Committee on Public Accounts addressed the subject of mental health care in Ontario in 1988 and 1989 following the release of the 1987 Annual Report of the Provincial Auditor. The Committee released an interim report on May 26, 1988 in which it recommended that follow-up work be carried out, including visits to hospitals.

In 1989, the Committee met with officials from the Ministry of Health and visited four psychiatric hospitals in Ontario, namely the Hamilton Psychiatric Hospital, Queen Street Mental Health Centre, Lakehead Psychiatric Hospital and the North Bay Psychiatric Hospital. In addition, the members met with the following groups during their visits: the Canadian Mental Health Association; a Community Advisory Board (Thunder Bay); the Ontario Friends of Schizophrenics (Thunder Bay Chapter); and representatives of Alpha Court, a community mental health organization in Thunder Bay offering a case management program and supportive housing.

The Committee received a response from the Ministry of Health to its 1987-1988 Report. The Deputy Minister acknowledged the ongoing nature of the Committee's investigation and stated that the Ministry looks forward to further discussions in relation to community mental health. Mental health care is viewed as a subject of ongoing concern and the Committee may decide to visit other hospitals in Ontario in the future.

The Committee concluded that the field visits were most informative and the Members extend their appreciation to the hospital staff, associations, and officials from the Ministry of Health. The Members found the staff in the psychiatric hospitals to be highly dedicated professionals with a commitment to the mental health care system in Ontario.

INTRODUCTION

According to the Auditor's Report, 1987, the objective of the audit was to assess the adequacy of arrangements to provide and manage mental health care services. The Auditor assessed the operation of Provincial Psychiatric Hospitals, community-based services, housing and homes for Special Care (to the extent that they may have an impact on the operations of the psychiatric hospitals) and mental health care generally.

The Auditor reached several conclusions on the ten provincial psychiatric hospitals, housing and community services, and planning and coordination which will be outlined in this report. Generally, the audit pointed out that there appeared to be little scope for significant cost reductions in the operation of these hospitals. It was also concluded that funding constraints and a decreasing emphasis on institutional care had limited the growth of psychiatric hospital costs and contributed to problems with the physical plant and interior patient environment. The Auditor pointed out that while there was little scope for major cost reductions, there were areas with potential for savings and improvements. In housing and community services, the deinstitutionalization of patients has placed increasing pressure on community-based housing and supportive services. Finally, the Ministry lacked the information to effectively plan and assess the operations in both psychiatric hospitals and community mental health programs.

The Committee's First Interim Report, 1988 addressed these subjects and made several recommendations in the areas of management information systems, homes for special care, and community programs, services and housing. The Committee decided that it would conduct follow-up reviews and visits to psychiatric hospitals to assess the deficiencies identified in its investigations.

This report is based on the meeting on April 13, 1989 with the Ministry of Health officials and discussions with the professional staff at the four psychiatric hospitals, and others.

The Members had the opportunity to discuss the Ministry's ongoing work in mental health treatment in provincial psychiatric hospitals, community mental health

programs and associated agencies. As reported in the 1987-1988 Annual Report of the Ministry of Health, new information systems have been installed at the psychiatric hospitals to increase management efficiency; improvements were made to the Oak Ridge Division of the Penetanguishene Mental Health Centre and Whitby Psychiatric Hospital; increased funding was announced for community mental health services, especially in Northern Ontario, and funding contributions were made for community-based programs.

The Committee received information from the Provincial Community Mental Health Committee, chaired by Mr. Robert Graham, whose report was entitled Building Community Support for People: A Plan for Mental Health in Ontario. This material was of interest to the Committee, and provided background information during the review of the Provincial Auditor's report.

STAFFING IN PSYCHIATRIC HOSPITALS

The Auditor's report pointed out several staffing problems. The psychiatric hospitals at times have a stressful work environment; compensation arrangements have resulted in recruitment problems throughout the hospital system and particularly in the north, and the systems for planning and assessing the level of nursing resources have been inadequate. These problems were attributed to staff shortages, low pay, staff-intensive patient restraint methods, unsystematic allocation of nursing resources and inefficiencies in housekeeping and dietary services.

In the Committee's First Interim Report 1988, the Members expressed concern with the approach to staffing in the psychiatric hospitals. The Report discussed the initiatives outlined by the Ministry of Health which included modifications to the compensation system; special pay and relocation awards for certain occupations and regions; new staff training programs in patient management; and a new classification system to improve staff allocation.

The Committee's 1988 report outlined recent initiatives to address staff shortages in psychiatric hospitals, particularly in northern Ontario:

- enhanced professional enrichment programs, and affiliations between the hospitals and health science centres at the universities to improve the professional image of the hospitals;
- discussions with the medical profession on revisions to the licensure system to facilitate staffing of hard-to-fill positions;
- efforts to recruit people from remote regions into medical schools and professional schools; and
- working groups, symposia, and meetings during the past two years on recruitment and retention problems.

The Committee discussed the compensation packages in psychiatric hospitals and the absence of an independent formal arbitration procedure to address remuneration, which was lower than in the medical profession generally. The Ministry indicated in 1988 that this would be studied.

According to the Ministry, the morale problem has been attributed to the poor image of psychiatric hospitals, the high rate of recidivism and the increasingly difficult patient mix in facilities after deinstitutionalization. The Ministry's initiatives last year included pay incentives for high vacancy positions; special relocation grants, and joint labour-management forums to address problems such as stressful conditions; staff training programs to manage patients with disturbed behaviour; the development of Intensive Observation and Treatment Units; the adoption of the St. Thomas patient classification system to improve staff allocation; a review of contract management for housekeeping and dietary services in the hospitals; coordination of renovation projects between the hospitals and the Ministry of Government Services; and the establishment of a Committee in each hospital to review privacy and decor.

The Auditor recommended that the Ministry should implement a patient classification system and staffing standards for all hospitals. At the time of the audit it was noted that only one hospital had a system for staff allocation and the Ministry had been studying the St. Thomas system as a model for other hospitals.

Staff Recruitment

At the April 13, 1989 meeting of the Committee, the Ministry of Health addressed the matter of recruiting and retaining professional medical staff, which is still a major

challenge. The Ministry attributes this problem in part to the location of some of the hospitals and also the working conditions. The subject of salary settlement has now been negotiated between the government and the psychiatrists, physicians and dentists. It is hoped that this will assist in the recruitment process. The nursing shortage is still a problem in some hospitals and the Ministry has an aggressive advertising campaign to attract these professionals.

The stressful working conditions have begun to be addressed through a joint management/union forum. Furthermore, the hospitals have started training programs to assist staff in coping with extremely disturbed patient behaviour.

The image of psychiatric hospitals is being addressed through community advisory boards in the communities with hospitals. Each board has a public relations officer responsible for promoting the hospital's image as well as other community liaison responsibilities. The hospital administrators are also attempting to strengthen the facilities' affiliation with local universities from teaching and research perspectives. In an effort to maintain staff morale and professional contacts, the hospitals will develop options such as employing medical residents and shared program opportunities.

The issue of attracting professionals was raised by the Committee. Psychiatrists in the private sector often practice on a part-time basis in hospitals and the Ministry pointed out that the new retroactive agreement is acceptable to psychiatrists. The fact that it has been difficult to attract specific specialists is recognized by the Ministry and is being addressed with respect to compensation options. Other medical specialists also visit the hospitals on a sessional basis and/or on a fee-for-service arrangement.

A job audit will be conducted to get a better delineation of the roles and responsibilities of the registered nurses and attendants on the wards. Furthermore, the Ontario Public Service Employees Union (OPSEU) has agreed to again participate in the meetings of the local employee relations committee.

The Committee discussed the demand for psychiatric treatment of adolescents. The Ministry sees the issue to be one of professional training in these specialty areas.

The Council of Ontario Faculties of Medicine based its projections for residency allocations on the ratio of specialty to population using 1981-82 data. The Council is now dealing with reapportioning residency positions to address the shortages.

The nursing shortage was discussed in relation to the fact that standard nurse to patient ratios (with few exceptions) have become a subjective delineation. The patient classification system is a "national standard" of nurse staffing measurement indicators which can be audited. Six of the ten psychiatric hospitals have this system and the Queen Street Mental Health Care Centre has finished its pre-test and is developing staffing standards. The increasing need for constant patient observation staff has resulted in budget control problems according to the Ministry. The tests at the Queen Street Mental Health Care Centre are critical to the Ministry's establishing a classification system. The Ministry stated that the classification system recognizes that a patient, at a given time and location, requires a certain level of nursing services which is then measured on a time scale. This allows for flexibility in moving nursing resources to high demand areas. Other factors such as financial restraints and the decreasing use of drugs will place increasing demand on staff time.

The Committee expressed an interest in the general ability of the hospitals to staff the wards. There is an ongoing effort to determine the appropriate staffing ratios and some are of the opinion that psychiatric hospitals' staff/patient ratios are in need of adjustment upward to the level of psychiatric wards in regular hospitals.

A new staff allocation system is being developed to rationally allocate staff to patients based on a classification model. The North Bay Hospital for example participated in the St. Thomas patient classification study.

The Committee therefore recommends that:

1. **The staff allocation system should be internally evaluated at such time that it is fully operational. The Community Mental Health Branch should be involved in the assessment of this new system. The evaluation report should be submitted to the Standing Committee on Public Accounts.**

The important role of volunteers in the health system was discussed, and the Ministry pointed out the concern over the possible displacement of regular employees in this process.

The stress factor and relative compensation of staff were also discussed by the Committee. The Ministry pointed out that psychiatric nurses' wages are a matter of negotiation by their union. The compensation for stress factors and under-staffing was discussed in relation to a heavy turnover. The Ministry views turnover in Toronto to be a problem for all hospitals. However, it saw the working environment, job satisfaction, continuing education and salary to be problems. The Ministry stated that it is addressing these matters.

The Ministry's difficulty in attracting professionals has been addressed through the Underserviced Area Program and the funding of comprehensive community programs. Adolescent problems, including the concerns over suicide, have been addressed through community funding in northern centres as well as in multicultural programs in southern Ontario.

The Committee raised the subject of correctional attitude or approach within the hospitals and the Deputy Minister explained that this approach, which is almost custodial rather than therapeutic and healing, has been the subject of meetings with the Ontario Public Service Employees Union.

The staff problems were evident in the Committee's trip to hospitals in northern and southern Ontario. Although salary incentives are being used in psychiatric hospitals, the competition for health care professionals in Ontario continues to place staffing burdens on psychiatric facilities. The Members have concluded that in some instances professionals generally prefer community work over institutions in central and southern Ontario locations.

The Committee therefore recommends that:

2. The Ministry of Health should review the employment packages, including pay scales for professionals within the health system, to determine whether psychiatric hospital employees receive comparatively similar remuneration with other hospital professionals, taking into account the current incentive programs and the unique demands of health care required in psychiatric hospitals.

The Committee has discussed the need to attract and encourage health care specialists to stay in the north. This could be done through student placement and programs to attract recent immigrants and new graduates. The Members recognize the complexities of this problem and feel that a wide range of options should continue to be pursued. The Ministry has been successful in attracting local professionals to practice in the hospitals on a part-time basis. The psychiatric hospitals must be portrayed positively as a viable place to work on a full-time basis, offering appropriate benefits and attractive career paths.

The Members are of the opinion that the hiring of professionals in psychiatric hospitals requires special attention. Innovative alternatives are required to attract professional staff and to support practicing professionals in the medical environment, including research, in northern psychiatric hospitals. Association with universities in southern Ontario with psychiatry faculties is important to professional development. Incentives, professional affiliations and work exchange programs are options which may be considered again to attract professional staff.

The Committee therefore recommends that:

3. **The Ministry of Health should discuss new options to attract medical professionals to northern Ontario in conjunction with input from the various professional associations. For example, students could be placed in northern psychiatric hospitals as part of their training, with commensurate incentives.**

The image or stigma surrounding mental health care and psychiatric hospitals was discussed during the Committee's hearings and hospital visits. The Members are of the opinion that this problem should continue to be addressed, possibly through the renaming of institutions and using vacant wards for other purposes such as the Victorian Order of Nurses, Red Cross or District Health Councils.

The Committee therefore recommends that:

4. **Psychiatric hospitals and community mental health care facilities and programs should continue to address the image problem on a community-wide basis through workshop groups, professional associations, local community health interest groups and other interested parties.**

The Auditor raised the issue of the utilization of facilities and the appropriateness of patient mix in the hospitals. These issues were discussed in the context of establishing alternatives to hospitalization and the patient competency debate. The Ministry explained in the 1989 hearings that several initiatives are underway to address these problems, for example the Weisstub Inquiry discussed below.

Patient Restraint

It was pointed out in the audit that patient restraint was an area with potential for savings and improvements. The Auditor stated that the increasing use of patient restraints, confinement, and one-to-one observation are very costly and reference was made to an innovative approach at Whitby (the self-contained Intensive Observation and Treatment Unit) which has reduced the staff and resources required to monitor patients under restraint. The Ministry is encouraging this approach, but it is in part dependent on funding for renovations.

The subject of structural changes to assist in the supervision of patients, for example in the design of nursing stations and the use of monitoring cameras, was discussed. Whitby has used the observation unit alternative to achieve a more economical approach to treatment. The Ministry outlined the various options being pursued for intensive observation treatment in the system and the Committee expressed an interest in how these various options could be assessed on a cost-benefit basis and whether there is a centralized plan. The Ministry responded that in many instances it will be more economical to replace facilities rather than to renovate.

The Members pursued the matter of quality of care and restraint. The patients are not in restraint for a long period and various options such as the six-bed unit at Whitby are being assessed. The Weisstub Inquiry is investigating when an individual is declared to be a danger to themselves and others, and also when an individual is to be declared

incompetent for purposes of making decisions about whether or not medication is required. A second study by Mr. Starkman is underway to address substitute decision-making.

Warrants of the Lieutenant Governor

The Ministry of Health's Encon Report on risk management systems for patients on warrants of the Lieutenant Governor was released in 1988. It was decided that the Ministry would address six recommendations in the Report dealing with policies and procedures to strengthen the existing system for managing these patients in psychiatric hospitals. The remaining recommendations will be considered by an interministerial group.

The Ministry is attempting to develop consistency for the terms of the warrants to assist the problem of interpretation for community privileges, etc. Specialists are currently assessing patients clinically against privilege levels. The management process for Lieutenant Governor Warrant (LGW) patients is under review and a management information system is being established to track these patients. The proposed bed registry system will help to identify available spaces to assist in the allocation of patients.

On the subject of security, the Ministry has started construction of the \$4 million activity complex at Oak Ridge and the Ontario Public Service Employees Union has agreed to establish a joint committee to address security matters.

The matter of inmates in the prisons awaiting psychiatric assessment was raised by the Committee. The Ministry is aware of this situation and is proceeding with the construction of secure units in hospitals. Furthermore, a coordinated approach is being developed for the management of forensic patients in conjunction with the Ministries of Community and Social Services, the Attorney General, the Solicitor General and Correctional Services.

In response to the events involving psychiatric patients in Brockville in 1989, an investigation was conducted by the Ministry into the operation of this forensic unit. Operational difficulties were identified which resulted in a consultant being retained to

conduct an operational review of the hospital, including the forensic ward. A forensic psychiatrist examined some of the LGW patients and their privileges in the hospital and community. A forensic specialist has been asked to assess the forensic ward proper and the administrator on duty at the time of the two incidents has been replaced.

The recidivism rate among LGW patients is relatively low according to the Ministry. This rate is higher for LGW patients in the hospitals than for these patients living in the community. The Members pursued the progression of LGW patients through the system, from high to less secure units over a two to twelve year period with ongoing treatment. The Ministry recognizes the difficult challenge of accurately predicting the behaviour of patients as they are rehabilitated and gain access to the community.

Following the Committee's visits to the psychiatric hospitals, it was concluded that the LGW patients are a unique group within the system and that staff training may not be appropriate in all cases to care effectively for them. In some instances these patients are seen as a threat to both the hospital staff and to other patients. In the opinion of the Committee, the operation of forensic units in psychiatric hospitals deserves special care to ensure the safety of patients and staff and the integration of forensic patients with other psychiatric patients requires special precautions. Ideally, forensic patients should not be grouped with other patients. This problem is partly due to a lack of funding to set up separate wards. These patients could be moved out of their communities and to appropriate wards in other hospitals, but they would be isolated from family and their advisors, which is not an ideal solution.

Members of the Committee are concerned about violations of warrants. The recommendations and implementation of the Encon Report will continue to be of interest to the Members, and the Committee may decide to address progress in this area in the future through site visits.

PLANNING AND COORDINATION OF INFORMATION SYSTEMS

The Auditor's report concluded that the Ministry lacked the necessary information to plan effectively and assess the operations of both psychiatric hospitals and community mental health programs. The Auditor acknowledged that improvements were

underway. Several problems were identified including the limited use of available information on causes of patient readmission and referral services; unreliable statistics on outpatient services due to inconsistent definition and monitoring of these services; absence of comparisons among the hospitals with regard to cost comparisons; and the lack of a system to gather and analyze information on the need for or utilization of community-based services.

In 1988, the Ministry stated that a management information system in each hospital was being developed, although these internal systems are not integrated and do not track patient movement. The Ministry acknowledged the importance of this capability in the development of an integrated community care system and stated that it was being addressed.

The Committee's report in 1988 pointed out that a reliable comprehensive client-based management information system is essential to the establishment and operation of an effective and integrated mental health care system. The Members recommended that the existing management information system in the hospitals be upgraded to permit the integration of information within the hospital system and that the Ministry pursue the completion of this system.

In the Committee's discussion with the Ministry staff in 1989 it was pointed out that a computerized management information system had recently been introduced in the hospitals to integrate admission, discharge and transfer data with financial management information, inventory control and pharmacy data. This data collection system and analysis permits a comparison of information among the hospitals. The Ministry has set up a committee to examine the ongoing management information needs of the hospitals for integration with this computer system. One objective is to produce comparative and hospital-unique information to promote quality assurance and monitoring of return patients.

During the hearings in 1989, the Committee was interested in the progress made on the information systems in each hospital and assessments of programs at the community level. The Committee expressed the opinion that the computerized statistical system will become progressively more important the more decentralized the health care system becomes. An information system on the patient-care side, addressing recidivism, length of time in the community and the level of support, is not available

according to the Ministry. A pilot study in Scarborough is being conducted to assess a central information system which will track an individual patient as opposed to a general medical problem for purposes of planning resources. The Deputy Minister added further that it may be possible in the future to monitor the effectiveness of the comprehensive system available to the patient, to determine the rate of reinstitutionalization by region and institution and compare the average length of stay, but not for the individual patient.

The Auditor concluded in the 1987 Annual Report that there was not an accurate and reliable system to estimate the potential extent of the demand for new community mental health services. It was therefore difficult to locate future facilities and services on the basis of most critical need. In addition, the Ministry needed more information about the effectiveness of the community-based services it has funded.

In considering planning and information services, the Committee discussed the movement of patients through the system and expressed concern about return patients to hospitals due in part to inadequate monitoring or tracking. Patients who have left the system would not be able to adhere to prescribed medication and rehabilitative services.

The Committee therefore recommends that:

5. **A patient monitoring system is required to ensure that deinstitutionalized patients receive follow-up care and medication at the community level. This would help to ensure the safety of the patient and monitor patient adjustment and progress, which is similar in principle to the public health care system approach.**

Difficulties in following up on patients once they leave the hospital are evident throughout the system. This is in part because of geographical distances from hospitals, particularly in the north, and patients referred to a community program may decide not to pursue treatment.

Aboriginal Peoples

Aboriginal peoples have distinct concerns and needs within the mental health care system, which include access problems and the necessity to take into account unique customs and values at the family and community levels. The Members acknowledge the importance of such factors in the delivery of mental health care services.

The Report of the Scott McKay Bain Health Panel entitled From Here to There: Steps along the Way is a review of health services in the Sioux Lookout Zone in Ontario. The objective of the review is to improve and promote health among the residents of the Sioux Lookout Zone. In this effort the panel specifically addressed the general physical, dental, mental/spiritual and community health of the aboriginal peoples of the area. In addition, perceptions of health, the health care system and the matter of community responsibility were discussed. Although this Report was not addressed by the Committee and was not the subject of the audit, the Members acknowledge the efforts of non-government groups and individuals in the promotion of mental health care.

The Ministry has initiated community programs in response to some of these concerns. The Committee expressed the view that forensic services, for example, could be assessed in consultation with aboriginal peoples to ensure that cultural factors are taken into account on a consistent basis at both the community level and in the psychiatric hospitals. Ensuring that a patient can remain in a facility in close proximity to his/her home, relations and legal counsel can also assist in the rehabilitation process.

This process may be assisted as more aboriginal peoples enter professional fields in Ontario such as law and medicine. The Committee notes these challenges in aboriginal communities and supports a pro-active approach to mental health care for all individuals in Ontario.

HOSPITAL FACILITIES/SERVICES

As pointed out in the audit, many of the psychiatric hospitals are old and the facilities are below the national standards for general hospitals. The wards were not sufficiently private according to the Auditor and the methods of providing and managing dietary and housekeeping services were weak. The Ministry had conducted studies prior to the audit which identified deficiencies and possibilities for staffing economies and improved services in the housekeeping and dietary fields. The Ministry studied contract management services options for the ten hospitals at the time.

The physical facilities presented additional problems such as crowding, lack of patient privacy in the washroom facilities, temperature control and ventilation. The Ministry's Whitby Hospital redevelopment program, to be completed in the mid 1990s, is viewed as a model for future hospital redevelopment.

In 1989 the Ministry updated the Committee on the physical condition of the hospitals. The Ministry of Health identified a number of improvements needed in the hospitals and submitted its findings to the Ministry of Government Services. An activity centre is being constructed at Oak Ridge, and the Whitby Psychiatric Hospital will be completely redeveloped over the next five years. The hospitals are responsible for their own minor internal renovations for patient comfort.

The Ministry has retained outside consultants to conduct operational reviews for several hospitals in fiscal 1988-1989 and 1989-1990. These reviews have been helpful in assessing the utilization of resources and management practices. The hospitals under study have a steering committee to oversee the implementation of recommendations.

The Ministry explained that renovations are prioritized within the institution and major projects are the responsibility of the Ministry of Government Services. The Deputy Minister pointed out that the psychiatric hospitals have not achieved the standards of the physical facilities of the public hospitals generally.

The Ministry regularly submits its priority list for improvements to the Ministry of Government Services. During the visit to the Lakehead Psychiatric Hospital the Committee noted the substantial improvements due to renovations and upgrading of the physical facilities. This information on improvements was requested from the Assistant Administrator of Support Services. The history of the process outlined the washroom renovations and redecorating; formation of the Community Advisory Board; the Patient Care Standards Study; and the Operational Review. During the 1987-1988 period clinical departments were centralized and wards were relocated and renovated during 1987-1989. Improvements to the psychiatric wards included

painting and wall printing; the purchase of pictures; stereo and television systems; curb and floor renovations; the installation of non-slip flooring in the shower areas, and lighting improvements, etc., for a total cost of \$27,150. An additional \$162,000 was allocated to washroom renovations for a total of \$189,150 and a further \$78,000 was spent to furnish three psycho-geriatric wards over a one-year period. The report on these expenditures stated that the upgrading program was made possible through a transfer of unspent funds to the maintenance budget on the authorization of the Psychiatric Hospitals Branch, Ministry of Health.

The Committee therefore recommends that:

6. **Psychiatric hospitals in general should note the interior improvements made in those hospitals visited by the Committee. For example, the Lakehead Psychiatric Hospital achieved cost-effective improvements to the interior hospital environment through painting, carpeting and furnishings, etc. which have contributed to an enhanced living environment and the morale of patients, staff and visitors.**

The Members expressed concern for the lack of recreational facilities in the psychiatric hospitals visited.

The Committee therefore recommends that:

7. **The Ministry of Health should consider enhancing recreational programs and providing new recreational facilities for the patients in psychiatric hospitals.**

The Ministry allocates approximately 3.5 percent of the total budget to each hospital for minor repairs such as painting and limited internal renovations. The Deputy Minister agreed with a Member's comment that even in an old facility, minor renovations can be relatively inexpensive, but are effective in improving the hospital environment generally.

The Committee expressed concern over the apparent differing standard of treatment received by psychiatric hospitals as compared to regular hospitals. The Ministry has recently responded to this issue by attempting to change the way in which the Psychiatric Hospitals Branch is organized in the Ministry.

This Branch is now integrated into the overall hospital system in the Ministry, under the same assistant deputy minister and capital planning branch. The Deputy Minister stated that "there ought not to be any reason why the physical facilities available for psychiatric patients should be of any lesser or greater or different standard than they are for any other; that is, they ought to be appropriate to the needs of the patient."

COMMUNITY HOUSING, PROGRAMS AND SERVICES

The Audit addressed areas in which there were possibilities for cost reductions, including community housing, and pointed out that approximately 25 percent of current patients would not have to reside in psychiatric hospitals if adequate housing and support facilities were available. Problems have arisen in relocating psycho-geriatric patients to suitable extended care facilities due to the shortage of such facilities and a general reluctance on the part of operators to accept this group. The shortage of adequate housing and services has contributed to readmissions and high occupancy rates in the hospitals.

The audit found that many ex-psychiatric patients lived in unsuitable boarding homes. These facilities did not have rehabilitation programs; the licensing procedures for these homes had resulted in inconsistencies and violations; and although supportive housing units and community-based programs and services had been improved the demand had not been fully met.

The Committee discussion in 1988 on homes for special care concentrated on the violations of licensing requirements and the lack of rehabilitation programs for residents. The violations were reported to be of a minor nature according to the Ministry and these problems were addressed. The Ministry also pointed out that community programs were being developed for these residents and that funding for programs had been requested. The Members commended the Ministry for its initiatives in the development of these programs. On the matter of license renewals the Committee recommended that the Ministry review its licensing requirements to determine the appropriateness of the standards and the renewal procedures to identify ways in which to reduce infractions.

The Ministry identified the initiatives taken to address these problems. Funds were made available in 1986 in the Boarding House Contract Program to upgrade these

homes and The Metro Habitat Program was set up 1986 to provide a per diem payment to Toronto boarding houses which maintained certain standards. The Committee was of the opinion that the complexity of this problem required a joint approach including the Ministries responsible for mental health patients, the disabled, the developmentally handicapped, the elderly and the Ministries of Housing and Municipal Affairs.

The Ministry of Health places a high priority on developing integrated services to enable patients to move from each type and level of care, although the transition from institutional care to the community or to other jurisdictions is not always without problems. The Ministry stated in 1988 that it is emphasizing expanded community programs with the assistance of other ministries or community groups. Ministry initiatives in 1988 included pilot projects involving integrated models of community housing and programs such as the Whitby project. The Canadian Mental Health Association has been active in a public information initiative to reduce the stigma of mental illness, contributing to greater community acceptance.

In response to the Auditor's reference to the community outreach programs, the Ministry explained in the April, 1989 hearings that a number of psychiatric hospitals are currently enhancing these programs in areas where services are not readily available in the community such as downtown clinics and geriatric outreach programs.

The Committee's interest in supportive housing was addressed by the Ministry in an elaboration on the existing Project 3000. It was established for special needs groups including ex-psychiatric patients who were to receive approximately one-third of these new units. The Ministry pointed out that the pilot project in Whitby included the development of supportive housing units with a model of programs and services for an integrated and comprehensive approach to community mental health care.

The Committee expressed the opinion in its 1988 report that the needs of ex-psychiatric patients were largely not met in supportive housing. The Members recommended at the time that the Ministry should have adequate capabilities to evaluate these initiatives to ensure that the maximum impact is attained in meeting mental health care needs in supportive housing, community programs and services.

In conclusion, the Committee recommended that community housing, programs and services warranted further legislative review and investigation.

The Auditor's report discussed the shortage of good quality, affordable housing. Most housing does not offer rehabilitation therapy although the Ministry has started to address these problems. Residential care homes are not ideal because they are not required to offer support services in all cases.

In addition to the housing problems, the audit identified the shortage of community mental health services, although funding has been increased for housing, workshops and clinics. Proposals for alternatives to treatment in psychiatric hospitals were discussed, including a crisis intervention centre and the issue of patient competency. The Committee supported the progress made on these two subjects and encouraged further action on the crisis intervention centre and the definition of competency by the Weisstub Inquiry. This study's terms of reference have been broadened according to the Psychiatric Hospitals Branch to include children and adolescents. It will now be due in early 1990, rather than in November 1989.

In discussions on the noninstitutional aspect of mental health care and the budgetary process, the Ministry explained that every effort is made to develop a balance between the institutional and community expenditures. The expenditures for 1988-1989 for community mental health care were \$83.4M (and an additional \$36.8M for the Alcohol and Drug Dependency Program) and \$349.9M for institutional care in the psychiatric hospitals. Also the Committee was interested in the percentage of the community mental health patients that have never been institutionalized; but this statistical information has not been recorded according to the Ministry. One of the Ministry's objectives from the point of view of patient welfare and the total number served is not to over-emphasize the institutional side of the equation. The Deputy Minister discussed the challenges in the transition of the patient from the institution to the community given the complexities of rehabilitation. Placement into the community requires supervision and a constant support system although not all communities are willing to accept patients. The Members addressed the challenge of encouraging the community to accept former patients and the associated legal, social and planning issues raised in this debate.

The hospitals have community advisory boards which undertake to address the image of these institutions at the community level. According to the Deputy Minister, the staff has worked closely with the Canadian Mental Health Association (CMHA) to improve the image and public attitude toward the mental health care system. The stigma of this illness continues to be a main obstacle to patient reintegration into the community. The Committee recognizes the importance of the community health care system for ex-psychiatric patients following deinstitutionalization. The community programs are essential to assist people in making the transition to normal lives both in centres with and without psychiatric hospitals.

The Committee therefore recommends that:

8. **The psychiatric hospitals should continue to assist in the development of a community support system in their communities with a positive image of the hospital as an integral part of the community.**

The Members acknowledge the ongoing involvement of individual volunteers and associations in community programs and in the deinstitutionalization process. The formal hospital outreach programs should not be seen as a replacement for community programs.

The Committee therefore recommends that:

9. **The community programs should provide discreet assistance in contrast to the institutional approach of hospitals. The community-based programs such as craft shops and drop-in centres should be integrated with the support/interest groups and their efforts in fields such as community housing.**

The Committee has acknowledged the Ministry's initiatives in the development of programs for the residents of special care homes. According to the Community Mental Health Branch, the programs for deinstitutionalized patients in special care homes are monitored through procedures to ensure that appropriate resources and activities for rehabilitation are available. Furthermore, the Ministry monitors the licensing of homes to ensure compliance with respect to public health and fire standards, etc.

The Committee therefore recommends that:

10. **Community housing establishments should be encouraged to consistently provide quality shelter as well as a protective and supportive patient environment, with a full range of services, in compliance with provincial regulations for health and safety.**

The challenge to provide suitable housing in the community is complicated at times by opposition at the municipal level. The local planning process can be used to facilitate the development of community housing in residential areas rather than in industrial zones through policy guidelines and zoning approval procedures. Current policy requires that 25 percent of new housing units including infill, redevelopment and conversions will meet the requirements of affordable housing. This policy applies to all Ontario municipalities, although some have been designated as a first priority. The smaller, less densely populated municipalities, for example in rural areas, similarly must demonstrate due regard for this policy and comply with the requirements through a gradual application. This approach will respect the slower rates of development and availability of resources in small communities and rural areas in Ontario.

The Committee discussed various options for developing housing to assist in the deinstitutionalization process. The Members were in agreement that patients should be integrated into the community and that housing in a peripheral urban location is not appropriate. The Ministry of Housing could be instrumental in the development of this housing as an integral component in the community with other housing schemes such as non-profit housing.

The Committee therefore recommends that:

11. **The provincial planning process should require municipalities to have a policy on community housing in the official plan and in the zoning by-laws.**

The Committee is encouraged by the fact that increasingly more patients could be deinstitutionalized if the housing was available.

The Committee therefore recommends that:

12. **The Ministries of Health and Housing should evaluate the possibility of developing lands surrounding psychiatric hospitals for ex-patients' "community housing", with the option of including non-profit and other housing programs.**

The psychiatric hospitals are seen largely as the initial step in the rehabilitation process with the patient progressing ultimately to community homes. The Committee was interested in the treatment of "heavy-care patients" in the process.

The Committee therefore recommends that:

13. **The longterm geriatric patients should preferably be in a non-institutional and a more humane home environment which should offer services for "heavy-care patients". The psychiatric hospitals should be used primarily for those patients most in need of institutional services and for those who cannot be deinstitutionalized.**

According to the North Bay Psychiatric Hospital officials, in 1989 approximately 25 percent of the hospital patients could be living in the community if housing was available. A full range of housing is needed offering dietary and support services. The Official Plan and Zoning By-laws for the City of North Bay, for example, have a policy and regulations for group homes such as "high level support housing" sponsored by CMHA. The municipal planning process does not distinguish specifically among client groups. CMHA has encouraged housing with comprehensive support services, whereas private boarding homes have not consistently achieved this necessary support level. The Members recognize the complex nature of deinstitutionalization and the challenge of rehabilitation. The Committee suggests that on an ongoing basis the Ministries of Community and Social Services, Health and Housing may consider alternative options such as foster care to assist in housing ex-patients.

LEGISLATIVE REVIEW

The Committee concluded in 1988 that the complex and multi-jurisdictional problems of community mental health programs, services and housing identified by the Auditor merit further legislative review and investigation. The Committee noted the diffusion of responsibility for the clientele and conditions of boarding and rooming houses, and the unacceptable quality of life for the residents in many such houses. The Committee has decided to reiterate the following recommendation from its First Interim Report (1988).

The Committee therefore recommends that:

14. The Social Development Committee of the Legislative Assembly should consider undertaking a comprehensive study of the housing and other community and health needs of ex-psychiatric patients, the adequacy of current and planned housing and services to meet these needs, and options to overcome any identified deficiencies.

GOVERNMENT ADVERTISING AND COMMUNICATION EXPENDITURES

Section 2.4 of the
1988 Annual Report of the Provincial Auditor

PREAMBLE

Government advertising and communication expenditures in selected Ministries were audited by the Provincial Auditor and reported in the 1988 Annual Report. On April 11 and 12, 1989, the following government officials appeared before the Standing Committee on Public Accounts to discuss the audits and specific interests of the Members: from the Management Board of Cabinet, the Secretary, the Chairman of the Advertising Review Board, the General Manager of the Advertising Review Board and the Executive Coordinator, Management Policy Division; from the Ministry of Energy, the Deputy Minister and the Director of the Finance and Administration Branch; and from the Ministry of Tourism and Recreation, the Deputy Minister, the Assistant Deputy Minister of Tourism and the Director of Tourism Marketing Branch.

The Committee concentrated on the Management Board of Cabinet and the Ministry of Energy audits in this Report, although the Members may decide in the future to pursue the issues discussed with the Ministry of Tourism and Recreation or to request hearings with the other Ministries audited in Section 2.4 of the 1988 Annual Report.

INTRODUCTION

The Auditor prepared audits on the management and advertising and communications expenditures in the Ministries of Agriculture and Food, Tourism and Recreation, Energy, the Environment, Housing and the Management Board Secretariat. This Report has focused on the Management Board Secretariat and the Ministry of Energy.

The Management Board Secretariat provides advice to the Management Board of Cabinet on the financial and administrative aspects of Ministry proposals, coordinates the preparation of the estimates, and develops and disseminates information on administrative policies. The Ministry of Energy is responsible for provincial energy policy and coordinates energy activities.

A Ministry's advertising agency manages the creative and production aspects of advertisements. Media space and time purchases in newspapers, radio, television, etc. are administered through the Government (Agencies of Record).

The Provincial Auditor's 1988 Annual Report addressed whether goods or services were acquired with due regard for economy and, secondly, if adequate systems were in place to evaluate the results of advertising projects. The Provincial Auditor made the following observations on the subject. In general, it was concluded that advertising goods and services were acquired with insufficient regard for economy. In particular, a widespread disregard for administrative documentation that would justify the reasonableness of the costs incurred and numerous instances of excessive costs and questionable expenditures were noted. Adequate systems to evaluate the results of advertising projects were generally lacking.

Furthermore, the Auditor pointed out that these problems in government advertising and communication expenditures are not limited cases, but that they were evident in several ministries at the time of the audit.

According to the audits, the Ministry of Energy and the Management Board Secretariat acquired advertising goods and services with insufficient regard for economy. As pointed out in the 1988 Annual Report, many of the expenditures reviewed did not demonstrate that the Ministry and Secretariat had received value for money. The Auditor concluded generally that the systems were not adequate to evaluate the output

of advertising projects. Nevertheless, the Ministry of Energy showed evidence of monitoring certain results in project evaluation. Finally, while advertising agencies were competitively selected in the Management Board Secretariat, the documentation was inadequate.

DUE REGARD FOR ECONOMY

The Committee discussed and reported on the subject of "due regard for economy" with the Management Board Secretariat and the Ministry of Energy. The Auditor's discussion of the evidence of insufficient regard for economy and the absence of value for money were demonstrated in the following examples listed in the 1988 Annual Report: competitive selection procedures were not followed for subcontracted goods and services; estimates and invoices were not supported with adequate detail; excessive costs were incurred; and questionable expenditures were made.

Advertising agency fees are established, in part, as a percentage of total production costs and, according to the Auditor, Ministry controls are important to control costs incurred by the agency. The Auditor identified common inadequacies in management control.

Ministry of Energy

The Ministry developed a play and later a film entitled "The Conserving Kingdom" for educational purposes in 1984, with the intent of promoting energy conservation at the primary school level. The production cost for the play (French and English) over three years was \$1 million (approximately). The film version was made to reduce costs and broaden the audience.

To arrange production of the film, the Ministry prepared the terms of reference and selected a firm. The Committee had concerns with the cost increases and the extension required beyond the original agreement. To arrange film distribution and promotion, the Ontario Film Development Corporation (OFDC) prepared a list of potential distributors although the firm selected was not on this list. The "Terms of Reference" were sent to five firms and only one proposal was received from the firm that produced the film. The firm selected did not have experience in film distribution and promotion and the Ministry had an existing contract with another firm which distributed product for \$10.00 per film.

A two year distribution/promotion agreement was set up with the company that produced the film. The two year contract agreement was for a maximum of \$245,000 or an estimated \$76.00 per film distributed. The total fee was paid during the first year of the contract, and the contract limit was increased by \$50,000 for distribution. According to the Auditor, invoices were approved for payment without a Ministry verification of the actual number of films distributed and expenses incurred. The contractor's distribution records indicated little correlation between actual costs and amounts billed to the Government. The distribution firm stated that there was never any attempt to invoice on the basis of services provided or on actual costs. The number and cost of copies of the film became an issue and the promotion of the film incurred extra costs in travel to the U.S. and Europe.

The Ministry confirmed the Auditor's concerns about the film production records and accounts discrepancies. The Ministry's written response stated that after consulting with the Ministry legal staff, negotiations were conducted to adjust all outstanding invoices with the contractor to reflect the audit results. The negotiations resulted in the reduction of the final invoice to the contractor by the nominal amount of \$5,000. The Ministry arranged for TV Ontario to assume the distribution of the film.

The Deputy Minister identified several problems in discussion with the Committee: the management of the tendering process, the unclear objectives of the film managers and the inability of the contract firm to provide accurate records. The Deputy Minister pointed out that some decisions could not be justified and that they were based on a judgement call.

The Ministry explained that this type of educational communication project is best handled by professional organizations and not by government unless there is a specialized group with this expertise. The problem resulted largely because of fragmented accountability in communications in the Ministry, according to the Deputy Minister. The Ministry has responded to this problem by taking the communication responsibility, including the budget, and placing it back in the Corporate Relations Branch. A professional communications manager was hired to assume responsibility and accountability for budgeting.

The Ministry's creative and innovative personnel in communications are now in the corporate relations division. The program personnel, responsible for the substance of the message, are in the policy and program areas. This two-key system ensures the

accountability for expenditures in corporate relations, according to the Ministry. The distribution and promotions will be addressed by communications.

The Committee noted the initiatives made by the Ministry in the restructuring of the communications group, including the development of a new strategic approach to meet the Auditor's concerns in areas such as program distribution.

The Committee, therefore, recommends that:

15. **When the reorganization of the Ministry's communications group is completed and implemented, the Ministry should conduct an internal audit of a completed advertising project to determine whether the problems as identified by the Auditor have been resolved. (Reference: R-2000 Program/Recommendation No. 7)**

The Ministry pointed out the importance of the communications component over the next two decades. The Select Committee on Energy (1989) and the Energy Choices conference are two mechanisms already in place to address the challenge. The communications priorities will be centralized in the Ministry in its dealings with other Ministries, Ontario Hydro and the general public, including interest groups.

The Committee, therefore, recommends that:

16. **The recommendations of the Select Committee on Energy (1989) should be addressed, particularly public education on the subject of demand management.**

Management Board Secretariat

The Committee is of the opinion that the Management Board Secretariat should have a major role in supervising and enhancing the efficiency of the internal audit process across government. The Management Board Secretariat could assume a broader supervisory role to ensure that the internal audit mechanism is functioning correctly and effectively within the ministries, conducting an evaluation of the internal audit process, thereby ensuring a comprehensive evaluation of contracts. The Committee, nevertheless, supports the existing internal audit process within each Ministry, which addresses financial and management controls. As pointed out by the Secretariat, once the advertising agency is selected, the value for money assessment would be the

responsibility of the ministry hiring the firm. The Secretariat does not review the advertising firms at the invoice level or on day to day operations. The Ministry and the advertising agency work in a partnership arrangement after the selection. Ministry management practices review these contracts through the internal audit process, but not regularly. It is not an audit responsibility but rather a management responsibility to oversee these advertising contracts.

The Committee is of the opinion that the Secretariat could provide an overarching role to monitor these contracts without having the responsibility completely for management and the audit process within the ministries.

The Committee, therefore, recommends that:

- 17. The Management Board Secretariat should assume a major role in coordinating advertising and communication contracts in ministries and agencies, thereby promoting economic efficiency through precise objectives and efficient management practices.**

Secondly, advertising in ethnic publications is conducted through the Government Information/Communication Program. This Program was established to support rural and suburban weekly newspapers as well as the ethnic media in Ontario with paid informational advertising.

The ethnic advertising planning guide listed 202 publications at the time of the audit. Ethnic advertisements account for 50 percent (approximately) of the Board's total advertising expenditures. The Members of the Committee recognize the importance of offering government assistance to minority groups through various ethnic programs. At the same time the use of these funds must be monitored to ensure value for money and therefore compliance with government standards. The Management Board Secretariat reviews the use of certain publications which, because of their relatively high rates and low circulations may not be cost effective. The Provincial Auditor suggested that it may be more economical to negotiate ethnic media rates to obtain a more consistent and competitive cost relative to circulation.

The Advertising Review Board monitors government advertising policies and has set eligibility to ensure cost effective government ethnic media purchases. Guidelines require that the publisher must provide the printer's invoice and supporting

documentation for the purposes of circulation/cost analysis. This was not done in some cases and therefore the Secretariat circulated a questionnaire to acquire the necessary statistics. The Auditor was of the opinion that eligibility to receive Ontario Government advertisements should be based on compliance with the guidelines and secondly that documentation should be submitted, such as the number of copies printed and the actual circulation figures.

Circulation/cost analysis, which assess advertisement rates based on circulation, was not possible. In response the Board circulated a questionnaire in 1987. The Auditor pointed out the significance of compliance with the guidelines and noted that information on printed and circulated copies is relevant to eligibility. The Secretariat clarified this problem in stating that all but 16 ethnic papers have now filed and that those with incomplete records are not receiving government advertisements through the Board.

The Secretariat explained in response to the audit that ethnic newspapers cannot be measured in terms of cost efficiency on the same basis as English language newspapers, whose advertising cost per thousand are proportionately lower due to their mass circulation. It is necessary in the case of ethnic communications to use all publications available to a language group, in order to effectively reach a majority of people in that group.

The Committee is of the opinion that the ethnic media fulfills an important role in Ontario. It is difficult to evaluate the benefit of these papers on a cost effective basis and the Committee expressed the opinion that this cannot be the primary form of evaluation. The Management Board Secretariat outlined the policy to the Committee to place advertisements in as many ethnic publications as possible to communicate with the ethnic community. This policy has not been altered and, as the Secretariat explained, the associated costs are the premiums paid to communicate via ethnic communications.

Media invoices were discussed in the audit and it was pointed out that some ethnic groups had a disproportionate number of publications compared to their provincial population. The media rates for publications were inconsistent in some cases. For example, the average cost of an advertisement per group ranged from \$53 - \$125 per

1,000 copies circulated for a 600-line advertisement. The Secretariat reviews the use of certain publications which, because of their relatively high rates and low circulations may not be cost effective. The Auditor suggested that it may be more economical to negotiate ethnic media rates to obtain a more consistent and competitive cost relative to circulation.

The Secretariat pointed out that action had been taken on this recommendation. The Secretariat has refused to accept excessively high advertisement rates as an initial step in addressing this problem. Furthermore, the Committee concluded that the rates should be negotiated in a standardized manner to ensure a competitive cost structure.

The Committee, therefore, recommends that:

18. **In an effort to ensure cost effectiveness in publications, ethnic media rates should be negotiated and standardized in order to establish a competitive cost structure in comparison with other circulation budgets in the industry.**

The Secretariat explained that there is a system of "checks and balances" in the purchasing of advertising. The Agency of Record places the advertisements for the Ministry following the preparation of the creative work at the advertising agency level with the Ministry. The Secretariat feels that this process helps to ensure the best purchase. Furthermore, the Secretariat consults with the ministries annually to assess the purchasing of advertisements and the levels of spending.

The Committee notes the steps taken to correct the problems identified in the audit. In addition, the Members recognize the importance of establishing standards against which the Government's involvement in the ethnic media can be evaluated.

The Committee, therefore, recommends that:

19. **In conjunction with the eligibility guidelines for government media purchases, standards should be developed through which Government support for the ethnic media could be monitored and evaluated.**

PROJECT EVALUATION

The Auditor noted evidence of results monitoring, although it was concluded in the audit that adequate systems were lacking to evaluate the results of advertising projects.

Ministry of Energy

The Federal R-2000 energy efficient housing program (1980) cost the Ministry approximately \$3 million in builders' training, television and print materials. The Ministry informed the Auditor that the program was used to stress benefits such as quietness, improved construction standards, etc. in addition to energy conservation. It was estimated that the Ministry's program had an "influence" on 150 units built in Ontario through the Ministry's policies.

The Ministry had an agreement with a magazine in 1986 to produce and distribute a plan book of R-2000 home illustrations and to produce and sell the architectural drawings. A second contract was negotiated in a similar 1987 agreement with more illustrations. At the end of 1985, 60 percent of the magazine's distribution was not in Ontario. The Ministry responded to the audit stating that the payment made to the national distributor was in support of a worthwhile private sector initiative to increase consumer awareness of the R-2000 concept.

The Select Committee on Energy similarly addressed the subject of energy efficiency and recommended that the government should revise the Ontario Building Code to substantially increase energy efficiency standards for new residential, commercial and industrial buildings. The Committee acknowledged the importance of the Select Committee's recommendation in its review of energy demand and supply. The Ministry is systematically adjusting every program in energy efficiency to ensure that the objectives are met.

The Committee concluded that further program assessment would be required, taking into account the association between the Ministry and the private sector and the success of individual projects. The Ministry has evaluated the R-2000 program internally, but the Committee feels that a subsequent review will be needed if it is continued.

The Committee, therefore, recommends that:

20. If the R-2000 program continues, it should be assessed in the future first of all with respect to the effectiveness of the partnership with the private sector, and secondly on a specific project evaluation basis to determine whether problems identified by the Provincial Auditor have been remedied.

The Ministry pointed out that there are management problems with R-2000 in part because it is tied to advocates, building companies beyond the Ministry's responsibility. The Ministry continues to promote the program's principles.

The Committee therefore recommends that:

21. The Ministry of Energy should conduct an assessment of the R-2000 Program and report to the Provincial Auditor. On the basis of this review, the Provincial Auditor could determine if a comprehensive report is required of the restructured communications group before April 1, 1990.

ADVERTISING AGENCY SELECTION PROCEDURES

Management Board Secretariat

The Auditor concluded that while advertising agencies were competitively selected, documentation was inadequate. Advertising contracts must conform with the Guidelines and Directives manuals of the Management Board of Cabinet. As noted earlier, the Advertising Review Board, a central administrative body which reports to Management Board of Cabinet, monitors government-wide advertising policies and is responsible for reviewing ministry advertising materials with respect to overall quality standards and communication objectives. Every agency indicating an interest in the contract is given a copy of the qualifying criteria and a capability questionnaire.

Agencies which return the questionnaire are placed on the long list of potential vendors. This list is reduced to a shorter list of finalists after the selection panel analyzes the completed questionnaires using established selection criteria.

The selection process for agencies was inadequate in areas of documentation according to the audit. The Auditor recommended that the basis for selecting agencies for the short list should be documented and retained, including the analysis indicating criteria met and not met for each agency; a set selection process and documented award ratings to offset any differences in members on the selection panel; and remuneration should be included to determine value for money spent in reviewing contractors when a total sum is submitted and not hourly costs.

The Secretariat explained that the selection of advertising agencies is based on demonstrated creative and service capability. Firms are selected through a competition process and they are asked to submit company information and displays to illustrate their capability. This information on the firm's history must be evaluated in conjunction with their written submission. Most advertising agencies work on the industry standard of 15 percent commission allowed by the media although this is not always the case. In this situation it was negotiated in the contract price. Value for money is achieved by careful planning and control of all costs on the part of both agencies and their client ministries.

The Management Board Secretariat informed the Committee that it has rectified the Auditor's concerns over the procedures for selecting agencies for the short list and that this process now ensures that information is documented and retained on file for each agency in the short listing procedure.

It is standard practice to receive a two percent discount for invoices for the media portion paid within 10 days. The Agency of Record did not identify these payment discounts at the time of the audit, and in 1987 discounts were not being pursued as was the case in previous years. The Auditor recommended that the Agency of Record should clearly indicate on invoices where early payment discounts are offered and Ministries should be reminded to pay invoices offering early payment discounts within the time required to earn such discounts. Early payment discounts are now indicated and processed as normal practice on invoices by the Agency of Record.

The Committee noted that in the "Review of Contracts initiated by the Crown" in the Provincial Auditor's 1984 Annual Report (s. 3.4) on the awarding of contracts, issues were raised of a similar nature to those discussed in the 1988 Annual Report. The

Members encourage efficiency in advertising and communications through clearly defined objectives and management approach to ensure due regard for economy. The Committee may decide to review the Management Board Secretariat's compliance with the Directives and Guidelines administrative manuals at subsequent hearings.

**WEAK CONTROLS OVER WATER AND SEWAGE
TREATMENT PLANTS, MINISTRY OF THE ENVIRONMENT**

**Section 3.7 of the 1988 Annual Report
of the Provincial Auditor**

PREAMBLE

The Provincial Auditor's report on controls over water and sewage treatment plants by the Ministry of the Environment was investigated by the Standing Committee on Public Accounts on July 22 and 23, 1989. Officials at the hearings from the Ministry included the Deputy Minister; Executive Director, Approvals and Engineering Division; Director, Kingston Regional Office; Assistant Deputy Minister, Operations Division; Assistant Deputy Minister, Environmental Services Division; Associate Deputy Minister, Intergovernmental Relations and Strategic Projects Division; Director, Water Resources Branch; Executive Director, Corporate Resources Division and Executive Director, Approvals and Engineering Division.

INTRODUCTION

The Audit on the water and sewage treatment plants assessed procedures to ensure that the treatment in these facilities was in accordance with Ministry requirements and whether the appropriate information was available to management and the public with respect to the quality of drinking water and water released from sewage treatment plants.

The water and sewage treatment plants in the Province were designed to protect public health and the environment. At the time of the audit there were 466 water treatment and 407 sewage treatment plants. The larger municipalities operate their own water and sewage plants and in smaller municipalities the plants are operated by the Ministry. The provincial government is responsible for 99 water and 238 sewage plants. Municipalities are responsible for the other plants. The expenditures for the provincially-operated plants (1988 fiscal year \$74.5 M) are recovered from the municipalities.

The Ministry's monitoring mechanisms for water and sewage treatment include the following: analysis of sewage and water treatment plant samples; inspections by Regional Environmental Officers; corporate reports on plant activities; and the Drinking Water Surveillance Program.

Water treatment plants purify drinking water to the Ministry's health and aesthetic standards. The Ministry publication, "Ontario Drinking Water Objectives" outlines the government standards. Treatment plants for sewage are required to meet Ministry standards and Certificates of Approval are required to enforce specific guidelines.

As pointed out in the Auditor's report, without adequate information on key issues such as inspections and bypassing, it is difficult for the Ministry to fully and accurately assess its needs in establishing priorities. The Deputy Minister assured the Committee that the Ministry has increased the level of proactive inspections and reporting on bypasses and is developing comprehensive compliance reports. The steps taken, for example, in proactive plant inspections will assist management in rationalizing the decision-making process in the future for the allocation of funds.

The Deputy Minister explained that the issues surrounding the sewage treatment plants focus on staff training, design and management, optimal operation of the plants, inspections to ensure compliance and reaction in response to the problems. The Ministry has developed a plan for a regular inspection system of water sewage treatment plants.

ENVIRONMENTAL OFFICER INSPECTIONS

The Environmental Officers conduct formal inspections of Ministry and municipal plants at any time to ensure compliance with Ministry guidelines, objectives and legislation. Violations can result in charges under the Ontario Water Resources Act. The Officers complete plant inspection forms for submission to the Region.

The audit pointed out that regular inspections by the Environmental Officers are necessary to avoid problems and ensure proper plant maintenance within Ministry standards. Reacting to plant problems is not the preferred approach. Routine plant inspections are helpful in ensuring acceptable operating standards.

The Auditor concluded that most treatment plants had not been inspected in at least two years. Water treatment plants were inspected in only one region and sewage treatment plants were inspected in only two regions. It is imprudent to restrict inspections to situations where problems have already been identified, since the purpose of regular inspections is primarily preventive and protective. The Ministry acknowledged that there are problems in the inspection process with respect to the regularity of inspections, due in part to the availability of personnel and other resources.

It was recommended in the audit that Environmental Officers should conduct in-depth inspections of all water and sewage treatment plants at least annually. It would be advisable to supplement these inspections with periodic informal visits, particularly to plants identified as having problems. All inspections and visits should be documented to assure management of the work performed and to record matters that require follow-up. It would be helpful if the follow-up is done by a different Officer. The Ministry supported this recommendation in its response.

The Ministry's inspection system for water and sewage treatment plants has traditionally been in response to specific problems, but it is now done on a routine basis. The Auditor's request for routine inspections was supported by the Ministry and an action plan has been developed for implementation in October 1989. The same criteria are used, therefore ensuring consistency in the inspections. It will require 18 months for the first inspection of all water and sewage treatment plants and, subsequently the inspection will be done annually. A special dedicated inspection team will conduct the proactive inspection and will not be involved in the daily problems and complaints responses.

The Ministry is endeavouring to increase the frequency of its in-depth inspections while taking into account all program demands and balancing overall Ministry priorities. Environmental Officers are also required to handle other abatement work such as spills, industrial inspections and complaints investigations. Inspection follow-ups will continue to occur to the extent resources allow and the Ministry stated that it would ensure that all appropriate documentation is filed.

The Deputy Minister explained that management control is maintained thorough monthly sampling data which are reported to operations officers for reviews of plant performance. These officers conduct periodic proactive inspections. According to the Deputy Minister, a variety of problems arise from inspections. These can be related to the way in which the plant is operated, some aspects of plant design, out-dated equipment and insufficient plant capacity. These items can, at times, be resolved through staff training and/or changes in design, which may in turn require capital investments.

The Committee requested a copy of the draft "Protocol Document for the Sewage Treatment Plant Inspection Program", which was designed to address inspection inconsistencies. The Members reviewed the inspection planning process, the 19 point treatment plant inspection protocol and the review procedures for treatment plant inspections. The Auditor's staff made several observations. The approach is similar to an audit program outlining procedures, which allows for consistency among the inspections performed. On the follow-up inspections the protocol document would indicate that this was to be done at the next inspection, depending on the severity of the problem. It was suggested that the Ministry may consider establishing some criteria as to when a follow-up inspection should be done and possibly who will be responsible for it.

The Ministry explained that the Protocol Document is used in training for inspection and not abatement, which is the second follow-up stage. Furthermore, the Ministry indicated that it will consider placing the inspection criteria section in the inspections finding report, indicating whether or not all standards were met.

The Committee was encouraged by the introduction of the Protocol Document as a positive initiative addressing some of the Auditor's conclusions and recommendations.

The Committee therefore recommends that:

- 22. In a future audit the Provincial Auditor should assess whether the Ministry of the Environment has taken the necessary steps to ensure that water and treatment plant inspections are adequate and that supporting inspection documentation is available for inspection. The Provincial Auditor should report to the Standing Committee on Public Accounts to verify compliance with these procedures.**

In response to further questioning on plant inspections and monitoring procedures, the Ministry explained the variations in treatment depending on the season and local industries. A random approach will be used and the inspections will not be announced in advance. The Ministry has the plant data in report form which is compiled regularly, prior to the external inspection. As requested by the Auditor, this approach would offer an objective perspective, which the Ministry endorses.

In addition to sewage treatment plants' monthly data reports and inspection reports, the plant staff conduct a "reactive" self-inspection, taking samples and having laboratory analyses prepared. The new "proactive" approach will require between 3 and 6 days for the inspections, in addition to established testing procedures.

On the Committee's question of personnel requirements for this new program, the Deputy Minister explained that the "dedicated pro-active staff" of 12 will carry out all provincial inspections. It is anticipated that this group will be adequate for the task. There are now 163 officers addressing waste and sewage plant problems such as complaints, spills and the abatement program.

SEWAGE DISCHARGE

Sewage can be discharged ("bypassing") into water bodies in an untreated/partially treated form during heavy storms when the plant and sewer system capacity is exceeded. A plant is responsible for reporting "bypassing" which can affect aquatic life and water recreation. The Ministry's comprehensive "Discharge Report" describes the capacity of plants to conform with Ministry standards for treated sewage during regular operations. Discharge Reports do not generally include information on "bypassing."

"Bypassing" is an offence under the Environmental Protection Act if it is deemed to be unnecessary and causes adverse environmental consequences. The definitions for "necessary and unnecessary" bypassing are currently being considered to aid in the determination of whether an offence has occurred. The following definitions are being considered by the Ministry. "Necessary bypassing" is defined as bypassing which occurs: during spring thaw or storm events that result in peak flows in excess of the plant design; as a result of equipment failures; and under circumstances where due diligence has been exercised by the operator in the face of Acts of God. "Unnecessary bypassing" is defined as bypassing that occurs under circumstances that do not meet the definition of "necessary bypassing."

The Ministry does not consider "bypassing" to be a spill under the Environmental Protection Act in cases in which the process is seen to be "normal," and/or in cases in which it is caused by rain or spring thaws. Action has been taken by the Ministry in the past against municipalities if bypassing is unnecessary and it is not reported.

The Auditor pointed out that the Ministry is not able to evaluate the environmental impact of bypassing and this has restricted assessment and corrective action. The objective is to take the necessary steps to prevent environmental damage in the bypassing process. When available, documentation on bypassing (untreated/partially treated sewage) could be used to identify plants in need of remedial work.

The Auditor reached several observations and conclusions. A regular report was produced by the Ministry's Utility Monitoring Information System to inform management about bypassing. For the 12 months ending December 31, 1986, 75 sewage treatment plants reported 1,400 instances of bypassing and 61 million cubic

metres of untreated and partially treated sewage. This represents approximately three percent of the total volume of sewage treated.

Not all measured bypassing occurrences were being reported to the Information System. When bypassing occurred, some of the plants did not include samples of outflowing sewage taken during these times in their final reported samples, while other plant operators avoided sampling during bypassing. This process utilizes sedimentation settling ponds when the plant capacity is exceeded.

The Auditor made the following recommendations on the basis of the observations and conclusions. All measurable occurrences of bypassing should be reported to the Information System and be reflected in the Discharge Report and a consistent practice should be adopted for sampling during bypassing occurrences. The term "unnecessary" bypassing had not been clarified to enable a consistent determination of when an offence has occurred. The Ministry is in the process of ensuring that all bypassing occurrences that can be measured are fully documented and characterized within the Utility Monitoring Information System with reference to quantity and quality.

The Deputy Minister stated that Ministry plants have been asked to report on bypassing and the 1988 municipal sewage discharge report will address plant bypassing reports. The older plants are able to report these cases, but they cannot measure the precise flow, although a new modelling procedure has been developed to estimate a bypass. As pointed out by the Committee, the Auditor was interested in both quantity and quality of each bypass. The quality or nature of the bypass materials is a problem to identify because it occurs during extreme conditions with storm runoff and overflow problems to avoid surge flows. This flow content is not always sampled, but the content is known based on data used in the model. The Ministry is of the opinion that sampling is not essential at the "first flush-through stage" of a storm, which is known to collect street litter and contaminated materials, followed by diluted sewage. The next report on municipal sewage discharge will include bypassing information according to the Ministry, and the 1989 Discharge Report will have a comprehensive picture with 70-80 percent of all plants reporting. This will in turn be of assistance in prioritizing improvement expenditures. The Members acknowledge the progress made by the Ministry to date in addressing the bypassing problem and reporting on its progress.

The Auditor's staff pointed to the overall planning considerations and the importance of data collection in making the best financial decisions for long term expenditures.

The Committee, therefore, recommends that:

23. The Ministry of the Environment should continue to reduce the need for bypassing. When bypassing is necessary under extreme conditions, the technical data on quantity and quality of the outflow should be fully reported in the Discharge Report.
24. The Ministry of the Environment should identify those treatment plants most frequently involved in the bypassing procedure. These facilities should be studied and options proposed to remedy the situation as a first priority.

The Committee discussed private sewage treatment and the Municipal-Industrial Strategy for Abatement which were not addressed in the audit.

The Committee expressed an interest in the inspection of privately operated sewage treatment operations, owned by industries. These plants are inspected by the officers visiting the municipal treatment works. Annual reports provide an inventory on discharge entitled, "Report on Discharges from Industrial Operations in Ontario."

The Committee explored the provisions and benefits of the Municipal-Industrial Strategy for Abatement (MISA) with the Ministry. This program is designed to protect water quality through controls on effluent from industry and municipal sewage plants. Some of the monitoring regulations are awaiting public comment and others have been adopted as this program is being implemented. The industrial sectors are also submitting monitoring data. The main objective is the elimination of toxic emissions.

At the municipal level the Ministry is addressing emissions by indirect discharges, that is industries releasing effluent into sewers and sewage treatment plants, such as toxic materials. The Ministry is in the process of discussing the required monitoring with municipalities. The existing grant process will offer assistance initially and will subsequently be reviewed. The Ministry's industrial inventory indicates that there is a gradual improvement in industry discharges over the past 4 years. Industrial plants are required to meet Ministry standards on air and water emissions. The Ministry can

require a private lagoon system if the industry is discharging into the sewage system. If it is being treated by the municipality, the industry pays a surcharge.

The Committee acknowledged the benefits of the MISA program, but the cost to the municipalities was questioned. The cost of the equipment and facilities required is currently being reviewed by the municipalities, including responsibility for the enforcement and operating costs.

Storm Water Management

The audit did not address the subject of storm water management, although the Members' questions pursued the following topics.

The Committee discussed alternatives which are helpful in reducing pressure on the treatment plants, such as the use of detention and retention ponds. Many government agencies have a role in drainage matters and the management of storm water and flooding. Storm water management studies are reviewed by the Ministries of the Environment and Natural Resources, but there is not yet a firm policy for the plan approval process.

The Province established the Urban Drainage Implementation Committee in 1980 and in 1988 the Urban Drainage Management Committee was created to review the approvals process and assist in implementation. At the present time the Ministries of the Environment and Natural Resources are developing a joint provincial policy for urban drainage, addressing matters of both quality and quantity. This policy will take into account technical considerations as outlined in the draft Urban Drainage Design Guidelines (April 1987). This document sets out the requirements of the master drainage plan and the storm water management plan. The planning process incorporates information on drainage systems with storm sewers; details of storage facilities (retention and detention ponds); flow calculations; controlled discharges, etc. The Committee acknowledges the ongoing nature of the work by these Ministries and looks forward to a resolution of the storm water problem as it relates to bypassing, with particular attention to those plants most frequently involved.

The issue of beach contamination was raised and the Ministry explained this problem is dependent in part on combined sewers and overflow. The Ministry is addressing the interconnected sewer problem, which is expensive and time-consuming. On questioning by the Committee, it was explained by the Ministry that the Don and Humber Rivers have been studied with respect to influents and clean-up options. Metropolitan Toronto, for example, has standards in bylaws which attempt to control discharges into the sewage system. The municipality is responsible for the outflow from the plant and the Ministry controls industries' discharge through enforcement.

The Ministry is addressing beach closures in part through a policy not to approve new combined sewers. As discussed by the Committee, there are numerous sources of extraneous water feeding into a sanitary sewer system. Peripheral drains and downspouts on homes place pressure on the system, as well as ground water infiltration.

INFORMATION RECORDS

Water and sewage plants are required to submit inflow and outflow survey samples for laboratory analysis to identify plant problems with respect to incoming pollutants etc. The in-plant report and the Ministry test results are sent to the Regional Offices and Corporate Office for analysis and recording in the Information System. The summary reports are considered in health and environmental impact evaluation reports and in program planning in funding allocations.

The audit noted that the annual "Report on the Discharges From Municipal Wastewater Treatment Facilities in Ontario" (Discharge Report) compares sample test results for individual plants (Information System files) with Ministry sewage standards. It was noted that this process does not incorporate the more stringent requirements set out in the Certificates of Approval for some plants.

The Auditor reached the following conclusions. *The 1987 Discharge Report noted that not all sewage plants met the Ministry's general requirements for sewage treatment in 1986. Had the more stringent requirements of the Certificates of Approval been used, fewer plants would have met acceptable standards. Reports on water treatment plants were not available to management and the public although the sample test results are routinely reported to the Information System. Unlike the*

Discharge Report for sewage plants, the "Municipal Water Treatment Works in Ontario" (Water Report) does not compare sample test results for individual plants with Ministry treatment requirements. Therefore, the Ministry was unable to provide the Auditor with information on whether water treatment plants met health and aesthetic treatment requirements as set out in the "Ontario Drinking Water Objectives."

In response the Ministry of the Environment pointed out that several compliance reports are currently produced. Once the integration of information systems is complete, the Ministry will produce a single comprehensive annual report which addresses facility compliance with all water quality objectives.

The Deputy Minister explained to the Committee that utility managers and senior management monitor the performance of the Ministry's water and sewage plants through corporate reporting systems. All sampling data are entered into the Utility Monitoring Information System (UMIS). Sewage plant performance is published annually in the Ministry's Discharge Report. As well, financial accountability is maintained through monthly financial reports on plant expenditures. Monthly sampling data are reported to operations officers for review of plant performance and these officers also conduct periodic inspections.

The Committee expressed an interest in the comprehensiveness of the monthly plant reports submitted to the municipalities. The sewage treatment plants' data are listed in corporate reports which originated in a joint Canada-U.S. agreement to report on discharge into the Great Lakes. The inspection reports are more comprehensive and will include the Municipal-Industrial Strategy for Abatement (MISA) data, to include in excess of 100 test parameters.

Drinking Water Surveillance Program

The Drinking Water Surveillance Program initiated in 1986 provides information on toxic chemicals in water and some basic contaminants in raw and treated water. This program requires sophisticated sampling and analysis techniques to identify and monitor the chemicals. According to the audit there are 160 different chemicals being measured in 46 municipal and Ministry water treatment plants. These plants supply drinking water to about 80 percent of the Province's population and eventually, the program will encompass all water treatment plants in Ontario, providing information on the quality of the Province's source waters as well as the treatment efficiency.

The Auditor concluded that this new program's implementation was progressing satisfactorily. The Committee's initial concern is that there is not an annual report on drinking water similar to that prepared for sewage treatment facilities.

The Auditor's staff explained that there are two information systems. These systems are the Utility Monitoring Information System (UMIS) discussed earlier and the Drinking Water Surveillance Program (DWSP). UMIS has data on both sewage and water plants and also the extent to which these plants meet Ministry requirements. DWSP addresses water quality and lists information on toxins in drinking water. The UMIS data for water treatment were not integrated with DWSP data and DWSP is the only report published on water treatment plants. The Auditor's staff further pointed out that the DWSP 1986 annual report did not address information from UMIS.

On the Committee's question on information collected from water treatment plants, the Ministry pointed out that two databases are available. One is a large unorganized database collected by all plants regularly, covering temperature, bacterial contamination, etc. The second is the Drinking Water Surveillance Program (DWSP) which is reported annually for drinking water consumed by the majority of Ontario's residents from 54 treatment plants. It analyzes 164 organic materials, pesticides, etc. and is reported on a monthly basis. According to the Ministry, the DWSP reports are available, but not the daily operating data from the plants. The Deputy Minister responded to the Auditor's concern that the Ministry published an annual report on the operation of sewage treatment plants, but that there is not a similar summary report for water. The Ministry pointed out that the DWSP is evolving into an overall provincial water report surveying 80 percent of the population's water supplies.

It was concluded that there is no report providing a comprehensive statement on the ability of water plants to meet the treatment requirements of the Ontario drinking water objectives. The Ministry responded that a single comprehensive annual report on facility compliance with these objectives would be prepared.

The Auditor's staff expressed the concern that not all plants were included in the DWSP. The Ministry explained that the reports are done on a plant-by-plant basis and since the audit, additional plants are being reviewed. Also, test parameters have not been dropped from the test except the pesticide scans, which are not carried out when these chemicals are not being applied.

There is not a data base summary on an annual basis that is readable and useful to assist in prioritizing how to improve the system's quality, taking into account the thousands of analyses required for the 180 parameters used. In summary, the Ministry is of the opinion that a compendium of the exceeding of water quality criteria, established for bacteria and other testing which is done frequently, would be of value in furthering the process of protecting water quality. It is therefore worthwhile to provide an annual report on water quality, according to the Deputy Minister, in a useful format which will prioritize spending to improve the delivery system. The Ministry's position is that if a summary report on water quality is required for the public, alternative formats will have to be considered to arrive at a usable statement of the numerous factors.

The Committee, therefore, recommends that:

25. **A comprehensive water quality report should be prepared on an annual basis, to assist in long term planning and capital expenditures. These reports should present an overview of the detailed water testing procedures in a summary statement, in addition to the Drinking Water Surveillance Program summaries. The information format should be comprehensible to the public.**

The Committee was also interested in well-water test programs in which the Ministry has become involved. The Ministry indicated that it would address potable water testing to ensure that the public is aware of the testing procedures offered by the Ministries of Health and Environment.

TREATMENT PLANT FINANCING

The issue of financing the cost of new treatment plants and repairing existing facilities was raised by the Committee in a discussion of the municipal financial responsibilities for treatment plants although this subject was not addressed in the audit. The Ministry stated that a municipality should address the fact that a plant will require expensive repairs and ultimately major capital investments and that this could be assisted through a reserve account. Furthermore, the municipality should be ensuring that development pays proportionately for new services, to protect the existing residents from having to subsidize new urban growth. Plants are debentured over a 10 to 20 year period presently, but funds are not being set aside for major capital expansions. The Deputy

Minister pointed out that some of the infrastructure in the province is in need of replacement and also the rate of growth has placed pressure on capital spending and available funds from the Ministry.

The Committee pursued the linkage between financial considerations and the Ministry's inspection program, in a discussion on providing assistance for municipal treatment plant problems. The Deputy Minister stated that these problems include operational matters and equipment failures which are paid for from the plant's annual operating budget. Some municipalities and the Ministry-operated plants have a reserve budget for equipment replacements and the Ministry has financial aid programs. Operating problems are corrected out of the plant's operation funds and some municipalities have a reserve account to cover the annual costs. The Members discussed the problems associated with these unexpected plant costs for municipalities without reserves. The Ministry outlined its subsidies, pointing out that the cost of operation is not subsidized.

In discussions with the Office of the Budget & Intergovernmental Finance, Ministry of Treasury and Economics, the provincial-local finance policy division outlined existing programs to address this problem. A "capital reserve fund" is used by the majority of municipalities to assist with major capital expenditures over the long term. A "water and sewer stabilization fund" is in use in the larger municipalities to average abnormally high taxes (rates) in a given year to a reasonable rate of increase and finally, a "contingency reserve fund" is in operation in most municipalities for small repairs and maintenance, unanticipated expenses and emergencies.

The Ontario Water Resources Act provides that the Minister may establish and maintain a reserve account to provide for renewals, replacements, project contingencies and capital expenditures. Reserve accounts have been used for municipally owned and provincially operated plants, but not for provincially owned plants or municipally owned and operated facilities. They are used for treatment plants with municipal liability. The Committee is of the opinion that because the cost of operating municipal treatment plants is high and that in addition to direct grants available through the Ministry of the Environment, financial options should be considered to further assist municipalities in treatment plant costs in addition to indirect funding through the Ministry of Municipal Affairs and special programs for northern communities under the Ministry of Northern Development and Mines.

The Committee therefore recommends that:

26. **A special joint reserve fund should be considered with provincial and municipal contributions to assist municipalities in major capital water and sewer treatment system projects, in addition to existing grant programs and the specialized reserve fund as set out in the Ontario Water Resources Act. The Ministries of Housing, Municipal Affairs and Environment should meet with the Association of Municipalities of Ontario to discuss the specific requirements of a joint reserve fund for the total water and sewage systems with reference to the provisions in the Municipal Act on the establishment of a reserve fund at the municipal level of government.**

In addition to these programs the Ministry pointed out other initiatives such as the former federal water and sewage assistance programs now retired; funding from other Ministries such as Northern Development and Mines; the disbursement program which funds Ministry-municipal joint projects; provincial projects financed and owned by the province; the Upfront Grant Program which provides direct subsidies to municipalities for construction projects; and finally, the Lifelines Program for infrastructure rehabilitation, developed to assist in infrastructure planning studies for upgrading of existing systems. The funding assistance programs depend on a formula including the population serviced.

The Committee discussed regional water and sewer treatment plant problems in relation to existing financial assistance and compared northern and eastern Ontario eligibility for program funds. The Ministry encourages municipalities to meet with the Ministries of Environment and Municipal Affairs to discuss the options where special programs do not apply.

In addition to the potential municipal costs arising from the MISA Program, Members were concerned about Ministry funding for ongoing municipal system improvements and the associated problems of being placed on a waiting list. The Ministry encourages municipalities to obtain the necessary approvals for projects, but it does not provide grant money for final design until the Ontario Municipal Board has given its approval.

The water and sewage systems throughout the province are aging in established urban centres and maintenance and capital investments will ultimately be required. The Committee is of the opinion that remedial maintenance is required to address existing infrastructure maintenance problems that are easily corrected such as leaking pipes.

The Committee therefore recommends that:

27. **The Ministry of the Environment should conduct a study to identify what can be corrected in the water and sewer treatment systems at a reasonable cost such as leaking pipes, faulty connections, etc. through a specific "action plan" in an effort to improve the systems generally and thereby control the demand flow in the systems.**

PUBLIC INVOLVEMENT

The subject of litter and discarded items in the rivers and lakes was raised by the Committee as a tangential subject and it was not discussed in the audit. The Ministry is involved in solid waste management programs, for example summer programs cleaning up rivers and streams through the Environmental Youth Corps and Students Cleaning Our Urban Rivers Program (SCOUR). The Members expressed a broad number of interests on various water quality subjects including leaching from toxic dump sites on the Niagara River, environmental health problems, prosecutions on the mishandling of hazardous waste and spills and compliance on the part of the private sector in the MISA Program.

The Committee is of the opinion that the Province of Ontario should continue to play a leading role among the various jurisdictions involved in environmental issues. Enforcement continues to be an ongoing challenge for provincial and municipal officials.

The Committee therefore recommends that:

28. **The federal, regional and local governments should be encouraged to continue to support the Province of Ontario in addressing trans-boundary environmental problems, which include, for example, the pollution of water supplies.**

The Members emphasized the importance of public support in the clean-up of lakes and rivers in the general environmental cause. A positive attitude is of fundamental importance according to the Committee and every effort should be made to foster community support for environmental programs. The SCOUR Program focused on students cleaning urban rivers and SWEEP assisted in the development and evaluation of conservation technology and demonstrated the positive effects of soil conservation practices and offered incentives for soil and water conservation.

The Committee therefore recommends that:

- 29. The Ministry of the Environment should continue to encourage public involvement in environmental programs such as those directed at the cleaning of lakes and rivers. These ongoing programs and initiatives should be assessed on a regular basis to ensure value-for-money. Recommendations for improvements should be made to encourage optimum program results.**

**IMPROVED COST CONTROLS AND RESOURCES
MONITORING REQUIRED, FOREST FIREFIGHTING,
MINISTRY OF NATURAL RESOURCES**

**Section 3.11 of the
1988 Annual Report of the Provincial Auditor**

PREAMBLE

The cost controls and resources monitoring of forest firefighting in the Ministry of Natural Resources were investigated by the Standing Committee on Public Accounts during June and July 1989. On June 22, 1989, the Deputy Minister of Natural Resources, the Director of the Aviation and Fire Management Centre, the Acting Executive Director of the Finance and Administration Group and the Director of the Financial Resources Branch appeared before the Committee.

The Committee's visits to forest firefighting centres in North Bay, Thunder Bay and Dryden on August 29, 30 and 31, 1989 provided new insights into the issues and concerns discussed on June 22, 1989 and gave Members an excellent opportunity to review the conclusions and recommendations of the Auditor's Report with Ministry personnel on location. The Committee is of the opinion that this field experience was most valuable and wishes to extend its appreciation to the Ministry of Natural Resources personnel who participated in the discussions, aircraft demonstrations and tours of the facilities.

The Committee requests that this brief supplementary report be considered as ancillary to the Second Interim Report 1989 of the Standing Committee on Public Accounts. At such time that the Ministry of Natural Resources responds to the Second Interim Report 1989, the Committee recommends that this companion document be incorporated.

INTRODUCTION

This supplementary report to the Second Interim Report 1989 is limited to the issues and observations of the Committee's visits to Aviation and Fire Management facilities. The background information as outlined in the Second Interim Report 1989 is not repeated.

Prior to the visits, the Committee requested submissions from the Northwestern, Northeastern and Northcentral fire management regions. These documents addressed a wide range of subjects which were raised during the discussions. These included administration matters, acquisition of equipment, water bomber maintenance, utilization of equipment and staff, major fire reviews, allocation of fire crews, fire response times and fire prevention programs.

FIRE PREVENTION AND DETECTION

The Members had the opportunity to discuss the procedures used in fire prevention and detection. The Ministry officials explained the procedures for monitoring weather, determining fire danger, fire occurrence prediction, fire detection and ultimately forest fire suppression. The advances in recent years, with the assistance of modern technology, have improved the overall system. Nonetheless, some Members were of the opinion that a formal and routine review of the fire prevention and detection methodology is required to ensure an optimum operation through a measurement and evaluation of the effectiveness of the procedures.

The Committee Members acknowledge the natural ecological role of fires and those divergent philosophies which favour permitting forest fires to burn naturally. But land values, particularly near urban centres, and the need to control forest fires to protect wild life, communities and economic resources must also be taken into account. The zones within the regional system of fire fighting are prioritized, with some northern areas at a very low priority in the detection and prevention system. Some Members emphasized that ongoing research should be a major priority, particularly on the various measurement indices with respect to type of forest density, spread rates, temperatures, precipitation, ground moisture, winds, etc. that are critical to the refinement of the process.

The Ministry explained the methodology used in determining fire danger for the management areas. The danger rating system is comprised of a Forest Fire Weather Index System and the Fire Behaviour Prediction System. The Committee noted the importance of the forest blow-down phenomenon, which can promote the spread of intense fires because the damaged trees are dry and it is difficult and dangerous for crews to gain access. The Ministry addresses this problem through prescribed burns, thereby creating a green strip of land, which forms a useful fire barrier. The Committee feels that before the blow-down area is burned, contractors should be given the opportunity to harvest the zone.

The Committee therefore recommends that:

30. **The Ministry of Natural Resources should initially assess whether or not it is possible to harvest a blow-down area before making the decision to carry-out a prescribed burn. If it is possible to salvage part of the area, forest product contractors should be notified.**

The Committee's opinion is that the prediction procedures are of central importance in a value-for-money context in terms of protecting human life and preventing the potential loss of capital investments. It is essential that the forecasting system tests the prediction procedures on a continuous basis to evaluate the indices and standards in the fire risk formula and to include assessments of the predictability coefficient.

The Committee supports an ongoing review of the fire prediction/forecasting system, that is a determination of the relative accuracy and overall efficiency of the system on a regular basis in general fire reviews.

The Committee therefore recommends that:

31. **Management should monitor the fire prediction system and periodically test the forecasting procedures. Additional resources should be directed toward an assessment of the forecasting indices and codes used in determining the risk levels against the actual results with respect to weather, ground cover, moisture, etc.**

ACQUISITION OF EQUIPMENT

Additional aircraft from the private sector are on contract to supplement the operations of the air fleet by providing detection and bird dog service and for general transport requirements. Helicopters are used for initial fire attack as well as for regular fire service and support operations.

The Ministry submitted financial information regarding contract aircraft at the Committee's request. In discussion with officials on this subject it was concluded that the current budgeting procedures do not permit the Aviation and Fire Management Centre to benefit from long-term leasing arrangements which would result in cost reductions. Furthermore, the short-term, ad hoc contract extension approach is an expensive alternative. The Committee is of the opinion that any cost savings which may be possible through other budgetary arrangements should be considered.

The Committee therefore recommends that:

32. **The current budgeting approach used to retain private sector aircraft on a contract basis, to supplement the Ministry's air fleet, should be assessed to determine whether an alternative, more cost effective approach incorporating a long-term contract would result in savings.**

In cases in which facilities can be shared between Ministries, cost savings may be realized. In the North Bay visit, the need for a second helicopter pad was discussed. It was pointed out that an arrangement may be possible for joint use of a helicopter pad between the Ministries of Natural Resources and Health. The Committee endorses a sharing of facilities where practically feasible.

FIRE CREWS

The fire crews are expensive to train and the Aviation and Fire Management division cannot be assured that its crews will return for the subsequent seasons following this initial investment. Seasonal staff are most often employed in other fields during the fall-winter period. The Committee acknowledges the importance of retaining

experienced crew members and although the period when the crews are engaged in off-season interests is not within the Ministry's jurisdiction, the Members are concerned with the permanent loss of seasonal staff. The Committee is of the opinion that the problems of attrition should be studied in an effort to retain staff from season to season and thus avoid costly retraining. The Members are well aware of the diverse challenges of the work, the seasonal nature of the responsibilities and the special skills required in this profession.

The Committee therefore recommends that:

33. **Management of the Aviation and Fire Management Centre, Ministry of Natural Resources, and the fire fighters' union should address the attrition problem and discuss the length of the employment period and any other related matters and report back to the Standing Committee on Public Accounts.**

In discussions with Ministry officials, it was explained that the three-person crew system's flexibility permits various combinations of the unit crew to be deployed in response to a fire. In this context it is not seen to be a restrictive approach. The Committee was informed that the Ministry will be conducting a comprehensive assessment during 1989-1990, with full regional participation.

FIRE HOSE MAINTENANCE

During the visits to North Bay and Thunder Bay the Members had the opportunity to view open air hose drying techniques and the indoor kiln system at Dryden. The latter kiln/oven drying procedure appears to be energy intensive and therefore expensive. Also the heating process may be damaging to the hoses. However, there is no alternative, such as an outside-tower system, at Dryden.

The Committee therefore recommends that:

34. **A cost/benefit study should be done to determine the feasibility of constructing an outside-tower hose drying system which could save on the energy-intensive kiln system at Dryden during the summer season. The report should be submitted to the Provincial Auditor.**

The cost/benefit analysis should make a direct reference to the personnel required for both drying systems, including an assessment of full time and seasonal employees.

FIRE FIGHTER TRAINING

The training for the crews is an intensive 10-day process to ensure safety and effectiveness. This requires instruction in fire behaviour, suppression techniques, and maintenance and the operation of tools and equipment. The suppression techniques are primarily for forest fires with water, mineral, soil or a fire retardant as the suppressing agent. The crews rely essentially on water pumps and a network of hose lines. This standard approach is complicated in fighting municipal landfill site fires which generally contain a wide range of substances, possibly including toxic material. This has resulted in special cautionary procedures to protect crews who are not trained or equipped for this type of firefighting.

The Committee therefore recommends that:

35. The Ministries of Natural Resources and Environment should address the sensitive environmental nature of the municipal landfill site fires with the objective of developing a policy taking into account the potentially hazardous products in these locations and the associated firefighting problems. A report should be filed within one year with the deputy ministers in these ministries and the clerk of the Public Accounts Committee.

Officials of the Ministry of Natural Resources expressed their concern on this subject and pointed out that cautionary measures are used in cases in which forest fires interface with municipal landfill sites.

FIRE PERMIT LICENCE

Fire permits are issued primarily by the Ministry and generally the regulations are upheld, and the educational and control functions are effective. Nevertheless, the Members feel that given the number of fires attributed to human error, continued surveillance and assessment of this system is required.

The Committee therefore recommends that:

36. **The Ministry of Natural Resources should assess the procedures for issuing fire permits, including the training of those individuals with the responsibility of explaining the regulations and granting the permit.**

This could be a major step in heightening fire prevention, and giving it an even higher priority for industry, schools and the general public.

**IMPROVED EFFICIENCY REQUIRED,
DESIGN ACTIVITY, MINISTRY OF TRANSPORTATION**

**Section 3.13 of the
1988 Annual Report of the Provincial Auditor**

PREAMBLE

The Provincial Auditor's report on highway design in the Ministry of Transportation was investigated by the Standing Committee on Public Accounts on August 21, 1989. Officials in attendance from the Ministry included the Assistant Deputy Minister, Engineering and Construction and the Regional Director, Central Region.

INTRODUCTION

The design responsibilities in the Ministry of Transportation include design for the construction of provincial highways. The Auditor's review of highway design in the Ministry was in part to assess whether adequate controls were in place to ensure that engineering consultants, design staff and related services were being utilized efficiently. Because most of the expenditures relate to the regions, the audit reviewed significant projects in three of the largest regions: Central, Northern and Southwestern, in addition to work at the Head Office divisions. The Auditor found that adequate controls were not in place to ensure that resources were being utilized efficiently.

The Highway Engineering Division within the Ministry's head office develops policies, design procedures and systems; conducts research; and offers advice for the infrastructure of the Highway System. The division also monitors the implementation and effectiveness of the processes and technologies used, and identifies needed improvements in consultation with the Ministry's regional offices and with industry. The Highway Design Office is within the Highway Engineering Division.

The Highway Design Office develops policies and procedures for preliminary and detail design, drainage and hydrology, and new products. Responsibilities include determining the skid resistance of pavements, evaluating the roughness and riding quality of highways, and developing and maintaining standard specifications and drawings reflecting Ministry construction and maintenance requirements. The office develops, monitors and provides technical expertise on automation of highway design activities, which is carried out by the Design Development, Design Evaluation and Pavement, Highway Standards, Drainage and Hydrology Development, and Design Automation sections.

The designs of provincial highways are prepared at five regional offices. In fiscal year 1988, 80 per cent of the design projects were prepared by regional personnel. These offices also select and oversee design projects by private consultants on contract to the Ministry. The Head Office provides technical information, general direction, and assists in scheduling design and construction projects. Policies and standardization of design across the province are also provided by Head Office.

CONSULTANTS AND DESIGN STAFF

Control Over Consultants

The Ministry personnel in planning and design are involved in the following aspects of highway design: general plan preparation; detailed drawings; quantity estimates; related work prior to the completion of specifications and the contract being awarded; and planning functions (projected transportation requirements and project defense).

In addition to Ministry staff, professional engineering consultants are retained by the regional offices to assist in design activities. During the 1988 fiscal year, 37 consulting firms were hired for planning and design assignments at an estimated cost of \$19 million.

The Ministry uses a roster rotation system for selecting engineering consultants, based on an equal distribution of assignments to qualified consultants without price competition. The type of assignments awarded under this system are typically the more routine tasks. The Ministry negotiates the fee based upon an assessment of information including the contract time, the hourly rates and a payment formula, and taking into account the terms of reference.

According to the audit, consulting costs frequently exceeded ceiling prices by significant amounts. A review of several consultant project files pointed out that there was little incentive to adhere to the contract price and timetable. The Ministry experienced difficulty in establishing the total contract price in the Central Region and cost escalations were demonstrated in several cases.

The Ministry's position was that their files indicated a need for better planning and preparation of projects together with a clearer definition of the scope of the work. The consultants were of the opinion that there was a lack of control and direction on the part of the Ministry staff over day-to-day operations.

The Auditor recommended that the Ministry should exercise better control over consultants to ensure that costs are contained within the established ceiling price, particularly as consulting assignments are not tendered and are generally for routine assignments where the required time can be more accurately estimated.

The Ministry responded that establishing a ceiling price for consultant services on planning and design assignments is reasonably easy to accomplish when all influencing factors are stable and can be accurately forecasted over the life of the assignment. The Ministry agreed that greater efforts should be placed on the preparation of estimates and payments to consultants particularly in the Central Region, where assessment of the work to be done is much more difficult to estimate.

In a discussion of the nature of the work undertaken, the Ministry explained to the Members the consultant selection process, which entails a "roster rotation system which ensures an equitable sharing of the projects." The consultants are seen to be particularly important in bringing new methods and control systems into the Ministry; in turn technology is transferred to these specialists. The consultants often have highly specialized levels of expertise, so at times the competition for contracts is limited to a very few firms.

The Committee pursued the matter of consultants exceeding ceiling prices and the Ministry explained that this problem can be attributed in part to intervening factors during the contract, such as rapid urban growth. Urbanization introduces complexities into the transportation planning and engineering processes which extend over several years, resulting at times in changes to the original design concept with respect to traffic projects, interchange locations, etc. According to the Ministry there are few changes in ceiling prices on projects such as resurfacing contracts and bridge designs which are less susceptible to exogenous variables.

A second important aspect of control raised by the Members was the need for a general watchdog function over consultants. The officials explained that there is a suppliers' list of consultants from which firms pre-qualify for a project. It includes a review of the firms' professional staff and completed projects. Unacceptable firms are removed from this list. Former clients are contacted to discuss the prospective firms history. A new firm's involvement is limited to small contracts, and the consultant is rated or ranked on performance during the design process. Finally, the construction phase work is assessed and problems are discussed fully. The Ministry has a detailed estimate of the project for which the firm is bidding and if the consultant is not within acceptable cost boundaries, other firms are considered. Proposals are required for

complex projects requiring specialists other than engineers and technical people, such as economists and environmentalists. The consultant market is very active in the sense that new companies are being formed regularly. The firms are aware of upcoming Ministry projects and advertising is consequently not required.

The Committee asked how the Ministry could ensure a ceiling price on the complex projects with expected cost overruns. The officials explained that the Ministry has to do a better job on estimating. The Ministry is also attempting to divide assignments into manageable stages. For example, one consultant would assume responsibility for only the preliminary design stage on the large projects. The Ministry would have to go to Management Board to extend a given firm's contract to include a subsequent phase. The Ministry must consider stopping a project when the design concept has changed significantly in order to modify the concept.

According to the Ministry's assessment, the problem projects with cost overruns were initiated in the late 1970s and early 1980s. Since that time the Ministry has improved on its procedures to avoid exceeding the ceiling prices. The violations were primarily for major projects.

The subject of long term planning as a tool to anticipate project problems was addressed by the Members. The officials pointed out that planning is conducted on a 20 year horizon, but in some cases it was impossible to anticipate changes such as rapid urban growth. The problems resulting with property purchases, dispositions and utility companies, etc. become unmanageable for the design teams. The Ministry works closely with the municipalities to limit these problems.

The Committee reviewed the contributing factors and consequences of cost overruns. The benefit of being required to justify costs in relation to a ceiling price and maintaining close contacts with the consultant were discussed by the Members. The Committee is of the opinion that a formal reporting system is required to fully document the causes of cost overruns. Factors such as contract delays or redesigning due to rapid urban growth should be fully explained.

The Committee concurs with the Provincial Auditor that the Ministry should exercise better control over consultants to ensure that costs are contained within the established ceiling price, particularly as consulting assignments are not tendered and are generally for routine assignments where the required time can be more accurately estimated. Furthermore, the Committee generally feels that the Ministry should evaluate its procedures for estimating project costs and this may require an assessment of the present methodology. Any problems would require a reconciliation with the project cost control systems used by individual consultants. The Ministry and the consultant should have a well defined understanding of contract payments at specific points in the work program.

The Committee therefore recommends that:

37. **The Ministry should evaluate its procedures for estimating project costs. This may require an assessment of the present methodology taking into account additional variables.**

According to the Ministry, the system monitoring consultant invoices has been strengthened. A subgroup reviews all invoices against the consultant's agreement. On the basis of the increased volume of consultant projects, this group had recently been strengthened after the first year of operation. In addition to this check for contract compliance, the accounting office similarly monitors invoices. Consultants are required not to exceed ceiling contract costs and an invoice with overruns would not be paid and would be subject to an investigation. Additional costs are most often approved first in a contract addendum. If this is not the case, the Ministry meets with the consultants to review the consultants' formal report on the costs. If the costs are justifiable the Ministry then gives its approval through a contract addendum.

Monitoring Design Cost and Time

The Ministry developed the Unit Cost Reporting System (UCRS) in 1986 to provide Head Office with the information to monitor, control and compare the time taken on design activities. UCRS was used to identify deviations among regions in project costs and time, and to determine the comparative cost effectiveness of in-house personnel versus the use of consultants.

The Auditor noted that for the 1986 and 1987 fiscal years, there were wide variations in the unit costs of specific operations between regions. It was also observed that no one at Head Office was reviewing or analyzing the information generated by UCRS. The Ministry anticipated that it would be several years before information could be available from which comparisons could be made and conclusions could be drawn.

The Auditor supported the Ministry's initiative in developing the Unit Cost Reporting System. Increased monitoring is essential to aid management in identifying possible inefficiencies and to ensure that the underlying database is accurate. The Auditor concluded that several areas should be the subject of further review, namely: the average unit cost per region for in-house detailed design of resurfacing projects and reconstruction projects and the average unit cost for detailed design for reconstruction projects by consultants.

The Ministry agreed with the Auditor's observations and accepted the recommendation to continue to review and refine UCRS. It sees UCRS as a management tool which will bring added uniformity and control to the planning and design activities. One objective of the UCRS, according to the Ministry, was to be able to look at the five-year plans for design and determine necessary resources over the next five years. The UCRS was designed in part to accurately assess the variation in workload and project time which in turn will identify the need to transfer or hire personnel, determine project costs and facilitate the estimates process and long-term budgeting.

The Ministry staff acknowledged that the UCRS was not adequate, largely because the information from the regions required by the System was insufficient and/or not accurate. The main problems with the regional data base are the variation in project information across the Province on a given task and the inability to easily compare project information from the various regions. The information must be collected in the correct manner and format to be used for data averaging analyses.

The Ministry has now assigned the accountability for the System to the manager of the highway design organization. The manager assesses the UCRS and is in direct contact with the regions responsible for the information base. The problems have resulted

partly because staff are not allocated sufficient time to assemble the planning data, the information collected is not always verified, and cross-checking is not always possible. Contracts also vary within the province and in southern Ontario more design effort is used in traffic control on a project.

The Assistant Deputy Minister of Engineering and Construction pointed out that there are many project design variables that the Ministry has not been able to determine unit costs for over a five year period. The Committee recognized the complexities of the numerous variables in projections, but the Members look forward to improvements and positive progress reports. The Ministry has estimated that within three years the data will be sufficiently precise to ensure an improved level of confidence in the UCRS.

The Ministry indicated that the system should be operational by 1992 and the Members were encouraged by the possibility that the Ministry will be able to fully monitor project costs. The Committee recognizes the value and the potential benefits of UCRS and requests that a subsequent audit by the Provincial Auditor will assess the progress.

The Committee therefore recommends that:

38. **The Provincial Auditor should evaluate and report to the Standing Committee on Public Accounts on the status of the Unit Cost Reporting System within nine to fifteen months.**

The Committee indicated that it may decide to recall the Ministry officials following a review of the Auditor's report on the UCRS.

The Development Project

As discussed by the Auditor, a large number of computer programs were used to assist in the design and analysis of highway structures. In 1979, the Ministry proposed the use of the Ontario Modular Bridge Analysis System (OMBAS). The benefits included reductions in construction cost through improved design, more alternatives, reduced design time, and improved uniformity and implementation of standard methods and solutions.

According to the Auditor the new computer software program was reviewed in 1980 and it was recommended to proceed with the System. By 1988 the cost had increased from the original estimate of \$730,000 to \$3.4 million. The System was to be operational by September 1983, although it was not completed at the time of the audit (1988).

The audit pointed out several problems. There was no evidence of specific Management Board approval for the initial development stages of OMBAS. Management Board approval was obtained in the latter stages for part of the escalating costs. The development of the System lacked management review and direction. The Steering Committee established to monitor the development met only twice and terms of reference were not established.

The delays in OMBAS as identified in the audit are as follows: a lack of understanding of the complexity of the System by the project teams; a lack of communication among the project groups; no formal development methodology, which caused confusion among project members; and the lack of general user acceptance of the System.

The Ministry responded that the project team was aware of the complexity of developing the project, but grossly underestimated the time it would take to complete it. The Ministry stated that it would again establish an OMBAS steering committee to conduct project reviews and give direction. The first task would be to report on OMBAS accomplishments and prepare an activity forecast of time and costs for completion.

At the hearings the Assistant Deputy Minister, Engineering and Construction, emphasized that the bridge design drafting system is very complex. A steering committee was set up to assist in computerization, but this is now being carried out by engineering personnel and not computer systems experts. According to the Ministry it is now operating properly.

The cost increase in 1988 was raised by the Members and the Ministry responded that several project tasks added to bridge design costs, such as retaining walls and culverts. The increasing cost of computers compounded the total expenditure.

The Committee therefore recommends that:

39. **The Provincial Auditor should evaluate and report on the progress of the Ontario Modular Bridge Analysis System within nine to fifteen months.**

Concrete Removal Projects

Design specifications to establish a contract price for the removal of concrete in bridge rehabilitation are based on two payment alternatives: area or volume of concrete for removal, or time required for the removal of concrete.

According to the Auditor's Report, payment based on crew hours has disadvantages. There is no incentive to the contractor to complete the project quickly. Extensive inspection is required by Ministry staff to ensure that a full crew is in operation and that an efficient average removal rate is maintained. The audit estimated that the use of crew hours, as a method of payment, resulted in cost overruns of up to \$1 million in the 1987 fiscal year.

The Ministry responded that it had re-evaluated its rehabilitation work requirements to ensure more durable bridge decks and that the new method improved the estimate process for the removal of concrete quantities. The Ministry now intends to calculate payment by the square metre for concrete removal in bridge deck rehabilitation.

At the hearings on August 21, 1989, the Ministry pointed out that the basic issue in bridge deck rehabilitation is the time and expense required for the investigations for repairs. The Ministry is now going to use measurements that benefit from new technology which can assess the condition of a bridge with radar. This replaces the old approach of carrying-out exploratory work with a Ministry inspector, which was a very slow and expensive process.

The new system will permit the Ministry to specify the construction required by the square metre. The new system of payment will be for a set cost per crew hour and if the contract has to be expanded to address unforeseen problems, the additional time required is the Ministry's responsibility.

The new radar system is now functioning and it is used during the design stage to estimate bridge damage.

The Committee therefore recommends that:

40. **The Provincial Auditor should evaluate and report on the progress of the new radar detection system used to evaluate the scope of the work in bridge concrete removal projects within nine to fifteen months. This report will specifically identify cost savings attributable to the new radar system.**

**OPPORTUNITIES FOR COST REDUCTIONS,
MUNICIPAL ROADS PROGRAM, MINISTRY OF TRANSPORTATION**

**Section 3.14 of the
1988 Annual Report of the Provincial Auditor**

PREAMBLE

The Provincial Auditor's report on "Opportunities for Cost Reductions, Municipal Roads Program; Ministry of Transportation" was investigated by the Standing Committee on Public Accounts on August 21, 1989.

Officials from the Ministry of Transportation at the hearing included the Executive Director, Municipal Transportation Division and the Director, Municipal Roads Branch. The Administrative Assistant to the Provincial Auditor and the Director, Ministry and Agency Audit Branches attended representing the Office of the Provincial Auditor.

The Committee would like to acknowledge receipt from the Ministry of a copy of Management Board's directive on Transfer Payment Accountability and the Ministry's research reports into the use of salt alternatives for winter road maintenance.

INTRODUCTION

The Municipal Roads Subsidies Program (MRSP) provides financial assistance to municipalities throughout Ontario in the form of road maintenance and construction subsidies. In fiscal year 1988 the Ministry of Transportation provided \$628 million in subsidies to municipalities. The audit of the Municipal Road Subsidies Program included a review of activities at the Ministry's Head Office, and visits to five districts and four municipalities to assess the degree to which construction projects were monitored. The audit objectives included assessing the adequacy of controls over the allocation and payment of subsidies to municipalities and monitoring of expenditures incurred by the municipalities.

The Ministry of Transportation plans, designs, constructs and maintains Ontario's provincial highway system and provides subsidies for municipal roads and transit, as well as policy development responsibilities for air, rail and marine programs. Within the Ministry, the Municipal Transportation Division is comprised of the Municipal Roads Office, Transit Office and a Municipal Transportation Policy/Planning Office. It is responsible for the Ministry's municipal programs; specifically developing policy and supporting transit systems and the municipal road network in both urban and rural areas. This includes the administration of the Ministry's transfer payments for municipal transit and road maintenance and construction requirements.

According to the Ministry's most recent Annual Report for 1987-88, funds were provided to 838 municipalities and 47 Indian Reserves. The program planning, policy development and evaluation, and overall administration of the MRSP has jurisdiction over rehabilitation projects and design work for future expansions. The MRSP supports a wide range of projects which assist municipalities in providing road service including the funding of new traffic signals and upgrading old signals, and the implementation of computerized signal systems in an effort to improve safety and reduce traffic congestion.

In order to establish subsidies for municipalities, the Ministry has divided the Province's 885 municipalities into three groups; namely, upper, large lower and lower tier. According to the Auditor, the "municipalities are placed in categories based upon population, level of road and bridge expenditures, and number of urban kilometres. Typically, the annual allocation process to the various tiers is based on the previous year's amount with some inflationary adjustment. Allocation to the various municipalities within each tier is done through a series of formulae. The construction allocation formula, for example, considers such factors as the current quality of roads, the dollar value of construction projects as determined by municipally prepared needs studies, and the municipality's ability to finance the road work itself. The Ministry allows municipalities to decide how the subsidies are to be spent, e.g., how much will be spent on maintenance versus construction, what type of construction (resurfacing vs. construction) is undertaken, etc."

There are 105 employees in the MRSP, comprised of 23 at the land office, 82 at the regional offices and 18 at the district offices. The regional and district personnel oversee individual municipal construction contracts including approvals for design specifications and plans for determining subsidies. The staff offers technical and policy advice at the municipal level.

In response to the audit, the Ministry explained that the municipal roads branch will move to Timmins as of September, 1989. This has resulted in a restaffing of the office and therefore more time will be required to respond effectively to the concerns of the Auditor's report.

SUBSIDY ALLOCATION AND PAYMENT

According to the Auditor's Report, controls over the allocation and payment of municipal road subsidies were adequate. Furthermore, the Report concluded that the methods used to allocate the total subsidies available were generally sound and were directed at arriving at an equitable allocation which took into account both the needs and the funding capabilities of municipalities.

MONITORING MUNICIPAL EXPENDITURES

The audit concluded that the monitoring procedures for municipal road construction exceeded adequate standards, but that municipal maintenance expenditures were not monitored although they comprised approximately half of the total subsidies. When the Ministry appeared before the Committee in August 1989, the officials explained that the Auditor's monitoring concerns have been addressed.

Evaluation of Field Visits

Field visits to construction sites consume approximately 50 percent of staff time in the districts. These visits verify construction and ensure that design specifications are met, administrative procedures are being followed and municipalities are being advised on policy and technical issues. This is standard practice by the district and visits can be requested by the municipality. Municipal subsidies in 1987 for construction were \$307 million.

The municipality attempts to ensure that expenditure controls are in place to monitor these provincial/municipal projects. The Auditor visited several municipalities to assess municipal controls and monitoring functions for projects.

The municipalities visited by the Auditor were of the opinion that only smaller municipalities with limited resources needed technical advice. District staff also confirmed that project reviews were not always necessary for upper tier and large lower tier municipalities as their projects were well controlled. The smaller municipalities benefit from the District's technical and administrative expertise.

The Auditor concluded that municipal control over the construction projects was good and that regular field visits by district personnel were not always necessary. Because the upper tier and the large lower tier municipalities have their own qualified staff to supervise and control these projects, it was felt that field visits to these municipalities could be reduced significantly.

The Ministry's initial response following the audit was that staff were prepared to review the matter at once and that generally the Ministry was satisfied that the field visits are necessary for the program administration. According to the Ministry's statement the "policy only requires a limited number of visits to ensure that proper

controls are in place on a municipal project and a recent audit by the Ministry's Internal Audit Branch discussed the issue of accountability in this and other areas, and expressed some concerns that the necessary controls may not be strong enough. Management Board presently has a project underway to confirm accountability for transfer payments."

At the August 1989 hearing the Ministry explained that the visits are an essential part of the program's administration to ensure that municipalities are properly managing construction projects, to help in the planning of the Ministry expenditures and to provide technical advice, particularly to smaller municipalities. The Ministry's staff will be reviewing its current policy with respect to field visits, but the Ministry sees a need for a continuation of field visits and fully endorses the current approach. The Ministry stated that it is certainly prepared to review the existing policy on the timing and number of the field visits.

The Committee was interested in the division of Ministry involvement for the various sizes of municipalities. It was explained that in the small municipalities, the Ministry provides more advice and assistance. In the case of large municipalities, periodic visits are necessary to ensure that proper tendering procedures and good program management are being followed. The large municipalities also help the Ministry to plan expenditures, when long term requirements are outlined for the allocation process.

The Committee pursued Management Board's project to confirm accountability for transfer payments. It was explained that the MRSP is a major transfer payment program and that the Ministry, Management Board and the municipal audit bureau are discussing possible accountability guidelines. Guidelines for managers on transfer payments have been drafted to ensure accountability.

On the matter of reducing site visits to the larger municipalities, the Ministry explained that every effort is made to liaise with the local people and the Ministry staff provides advice and assistance. The officials expressed the view that there may be areas for improvement, but that existing field staff are needed and that the visits should be continued. The Executive Director explained that the municipal road program costs approximately \$700 million annually and that an inspection program is required to ensure the proper expenditure of funds. Also, the inspection is necessary to maintain the local road system at provincial standards in a reliable integrated province-wide transportation network.

In summary, the Ministry concluded that it is not a high priority to change the present level of activity on field visits. There has been a 10 percent reduction in staff since the audit. The Members recognize the importance of the field visits in principle. Nevertheless there is a concern over the possible duplication of services in the larger municipalities, which are well staffed.

The Committee therefore recommends that:

41. **The Ministry should assess its municipal field visit program with the objective of avoiding duplication of inspections, particularly in the large and well-staffed municipalities. A reallocation of field inspection staff to the municipalities requiring this expertise would help to optimize the use of these resources.**

Municipal Maintenance Costs

Road Maintenance covers winter control (sanding, salting and snow removal) and direct and indirect maintenance costs. Direct costs cover ditching, curb and gutter maintenance and catch basin maintenance. Indirect maintenance costs include grass cutting, street cleaning and debris pickup.

In the Auditor's review of the Ministry's monitoring of municipal maintenance expenditures, 39 municipalities were selected for analysis of indirect maintenance and winter control costs in 1986 and 1987.

The Ministry explained that "the municipalities have full control over their road maintenance expenditures. They set standards and the levels of service appropriate to local conditions and the Ministry controls its own expenditures by providing allocation for road subsidies. These allocations are the maximum amount the Ministry will provide in road subsidies in any one year to a municipality. Expenditures by municipalities in excess of the amount supported by the allocations are made without subsidy and at full cost to the municipality."

Indirect Maintenance Costs

According to the audit, five specific indirect maintenance activities were reviewed which in 1987 accounted for \$53.6 million, or 77 percent of the total subsidy dollars paid for indirect maintenance.

As pointed out by the Auditor, certain variables have not been incorporated in the analysis, such as geographical location. The analysis was broadened to include a comparison of indirect costs for five municipalities in a specific geographic region. The differences in expenditure were significant. For example, the City of Hamilton spent ten times more per kilometre for tree planting/removal and trimming than the City of Burlington.

The audit identified large increases in indirect maintenance costs such as street cleaning and grass cutting. For example, from 1986 to 1987 Belleville's street sweeping costs went up by 1,000 percent. These cost variations are more understandable in winter control programs which are subject to weather.

The Auditor concluded that there was a wide variation in maintenance costs across the Province. The Ministry's initial response was that "it had recognized the right of each municipality to set its own standards because of the differing needs and circumstances of each municipality. There are different requirements in urban areas as compared to less developed rural areas. The type of development and local land use will affect such activities as street cleaning and litter pick-up needs. In addition, the Ministry does limit subsidies through its allocation process to "average levels" of service. Many municipalities choose to provide a higher level of service and overspend their allocations. Where the Ministry has become aware and has determined that such activities are being undertaken for non-road reasons, adjustments have been made. In addition, the Ministry has previously encouraged larger municipalities to adopt Maintenance Management systems."

At the August 1989 hearings the Ministry stated that there are valid reasons that service levels do vary between municipalities and it recognizes the need to control the cost of road maintenance. The Ministry has been working with and has supported the efforts of the Ontario Good Roads Association in its Productivity Improvement Program. The field visits provide the staff with the opportunity to discuss ways of controlling maintenance expenditures with their counterparts in the municipalities.

Winter Control Costs

The audit conducted comparisons on sanding/salting and snow removal/plowing and found that the differences across municipalities were wider than expected. These two programs cost \$61 million or 90 percent of the total budget (\$68 M) in winter control

costs in 1987. There has been a wide discrepancy in the cost for sanding/salting and, selecting municipalities in a given geographical area, these differences were significant. The Committee discussed the variation in winter maintenance costs, particularly for those municipalities within the snow-belt region. The snow removal cost is further compounded by the road repair expenses due to the salt damage.

On the matter of cost controls for winter maintenance, the Members inquired about studies on environmentally sensitive substances to replace road salt. The Ministry outlined the work carried out on acceptable alternatives and the tests conducted. Copies of two research reports on road salt alternatives were submitted to the Committee. The Municipal Engineers' Advisory Committee has discussed this subject with the Ministry of the Environment and the meetings are on-going. The Committee also pursued the related matter of salt induced vehicle damage. The Ministry assured the Members that this matter is being studied. In addition, the economics of salt alternatives, the costs of vehicle replacement and repairs to concrete transportation infrastructure were mentioned in the maintenance cost equation.

The Committee therefore recommends that:

42. **The Ministry should continue its research to develop alternative methods of snow control, taking into account environmental and safety factors, and the economic costs associated with salt damage to the transportation infrastructure.**

Alternatives to road salt may include a combination of snow control options such as a salt substitute, snow fences, etc. The alternatives should be subject to ongoing testing, taking into account cost effectiveness. The Ministry's leadership role in this research is important to develop improved snow and ice control in winter maintenance programs on municipal roads and throughout the Province.

Monitoring Maintenance Expenditures

The significant differences in maintenance costs were not adequately explained at the time of the audit, although references were made to staff shortages and inadequate

computer equipment facilities. Within the Ministry, district staff are responsible for construction projects. The cost/km for municipal maintenance is not analyzed or monitored by the Municipal Roads Office.

The Auditor concluded that while controls over construction costs are more than adequate, municipal maintenance expenditures, which constituted almost 50 percent of the total subsidies, are not subject to any cost controls. It is estimated that the potential exists for annual savings in excess of \$20 million if the Ministry monitored maintenance costs more closely and if reasonable spending limits were placed on these expenditures.

On the basis of these conclusions, the Auditor recommended that any savings brought about by greater economy and efficiency in maintenance costs could be channelled into increased funding for municipal construction projects. It was also suggested that consideration should be given to conducting operational or value for money audit work at municipalities incurring comparatively higher maintenance costs. The Ministry's response was that savings can be realized. The Ministry stated that it would require greater attention to these activities when reviewing Annual Returns and in discussions with the municipalities.

The Committee acknowledges the wide variation in maintenance costs from one area to another, taking into account differing land uses, population densities, geography and climate. The Ministry recognized that inefficiencies may occur and therefore it has been involved with the Ontario Good Roads Association and its Productivity Improvement Committee in order to assist the roads superintendents and the county engineers in the assessment of service levels.

On the subject of cost controls the officials outlined justifiable differences in service levels. It was pointed out that this is a transfer payment program, and the Ministry is not managing the municipal road network. The municipalities are not given specific standards with respect to the regularity of maintenance procedures and the excessive service levels are a factor. The allocation of funds is based on averages and the Ministry does not fully support the claim that \$20 million could be saved on maintenance costs annually, although steps are being taken to reduce costs.

Furthermore, the Ministry explained inconsistencies in project reporting from year to year which has resulted in distortions in various projects such as litter pickup. Each municipality is a district corporation with its own practices for reporting on work completed, although some do have a standardized maintenance management system. In conclusion it has been impossible for the Ministry to compare across municipalities because of the different reporting methods and project classification systems. The Ministry pointed out the difficulties in attempting to average and group municipalities on the basis of expenditures. The field staff are aware of these differences and municipalities have been encouraged to address excess service levels.

In the discussion of value-for-money audits, the Executive Director of the Division agreed that this concept should be discussed and possibly introduced in the municipal road audit function which addresses expenditures and policy guidelines. Furthermore, the Ministry assured the Committee that it would follow up with an in-depth examination of the issues raised by the Auditor with respect to the maintenance costs over and above the explanations relating to geography, climate, etc.

The Ministry is aware of overspending in precise terms, but the decisions on maintenance are for local government to decide. The Ministry maintains control by virtue of the fact that the program has a cap on finite resources. On the subject of collecting more information and looking for patterns to amend existing policy, the Ministry supported the idea in principle. This may mean a reallocation of funds for different maintenance approaches over the long term period. The Ministry agreed to review this matter in depth with a completion date in 1990.

The Committee pursued the subject of road conditions and public opinion in response to these problems. The Ministry explained that "needs studies" are conducted in many municipalities and these have indicated the relative state of repair. It is in the municipalities' best interest to update these studies to address required improvements. The smaller municipalities are encouraged to have a Road Management Study every five years to assist in planning process.

The Committee raised the subject of Ministry involvement in municipal improvements to ensure value-for-money in road expenditures. Each municipal technician is responsible for between 6 and 20 municipalities and is familiar with remedies and practices for road problems on a practical level and also has attended training

programs. A new publication from the Ontario Good Roads Association shares practices among road superintendents to ensure communication of the best solutions to road problems.

The Committee endorsed the Auditor's recommendation that the Ministry should consider conducting operational or value-for-money audits for municipalities incurring comparatively higher maintenance costs.

The Committee therefore recommends that:

- 43. The Ministry should utilize its expertise to conduct operational (value-for-money) audits for municipalities with comparatively high maintenance costs. These audits should be conducted during the periodic Municipal Audit Bureau audits to minimize any inconvenience.**

The Committee is of the opinion that municipal maintenance information and records should be reviewed in conjunction with the Ministry subsidy, with the objective of establishing acceptable maintenance standards. The Ministry has indicated that variations in maintenance costs will be reviewed and that maintenance monitoring will be implemented.

Since 1979 the Ministry has been reviewing its subsidy program. This has involved a joint Ministry/Municipalities forum, a review of cost-sharing with townships, the introduction of "needs calculation model" and most recently the eligible road program items have been assessed and revised. The review process is ongoing, with each component of the review requiring 3 to 4 years.

The Committee therefore recommends that:

- 44. The Ministry should ensure that its ongoing review of municipal maintenance eligibility standards and criteria be considered in conjunction with the Ministry's proposed monitoring of municipal road maintenance expenditures.**

The Members concluded that it is the Ministry's responsibility to provide direction to the municipalities to ensure value-for-money audits.

APPENDIX A

Terms of Reference Standing Committee on Public Accounts

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 104(j):

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available.

APPENDIX B
Schedule of Hearings

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

April - December 1989

Tuesday, 11 April 1989

10.00 a.m.

Briefing by Research Officer

2.00 p.m.

Re: Section 2.4 (1988)

From the Management Board Secretariat:

John Sloan
Secretary of the Management Board

Robert P. Brown
Chairman
Advertising Review Board

Michael Jordan
Executive Co-ordinator
Management Policy Division

Shirley Sellen
General Manager
Advertising Review Board

Wednesday, 12 April 1989

10.00 a.m.

Re: Section 2.4 (1988)

From the Ministry of Energy:

Daniel Gagnier
Deputy Minister

Victor Bailey
Executive Co-ordinator
Finance and Administration Branch

From the Ministry of Tourism and
Recreation:

D. Blair Tully
Deputy Minister

Peter Jackman
Assistant Deputy Minister
Tourism Division

Anne McCall
Director
Tourism Marketing Branch

2.00 p.m.

Re: Section 4.9 (1987)

Tour of Hamilton Psychiatric Hospital

Thursday, 13 April 1989

10.00 a.m.
and
2.00 p.m.

Re: Section 4.9 (1987)

Tour of Queen Street Mental Health Centre

From the Ministry of Health:

Martin Barkin
Deputy Minister

Howard Danson
Acting Director
Psychiatric Hospitals Branch

Dianne MacFarlane
Administrator
Queen Street Mental Health Centre
and Co-ordinator
Mental Health and Addictions

Wayne Fyffe
Administrator
Hamilton Psychiatric Hospital

Monday, 17 April 1989

2.00 p.m.

Draft Report

Tuesday, 18 April 1989

10.00 a.m.
and
2.00 p.m.

Re: Section 3.3 (1988)

From the Ministry of Community and
Social Services:

Peter Barnes
Deputy Minister

Allan Kirk
Manager
General Welfare Assistance Program
Development Unit

Mark Woollard
Manager
Policy Development Section

Wednesday, 19 April 1989

10.00 a.m.

Briefing by Research Officer

2.00 p.m.

Re: Section 3.12 (1988)

From the Ministry of Revenue:

Terry M. Russell
Deputy Minister

Derek Rowsell
Executive Director
Tax System Operations and Design
Division

Robert Moxley
Director
Motor Fuels and Tobacco Tax Branch

Thursday, 20 April 1989

10.00 a.m.

Briefing by Research Officer

10.30 a.m.

Re: Section 3.12 (1988)

From the Ministry of Revenue:

Terry M. Russell
Deputy Minister

Derek Rowsell
Executive Director
Tax System Operations and Design
Division

Robert Moxley
Director
Motor Fuels and Tobacco Tax Branch

Friday, 21 April 1989

10.00 a.m. Draft Report

Thursday, 11 May 1989

10.00 a.m. Organization

Notice of Motion re: Ontario Human Rights
Commission

Thursday, 18 May 1989

10.00 a.m. Motion re: Ontario Human Rights Commission
WITHDRAWN

Thursday, 25 May 1989

10.00 a.m. Draft Report

Thursday, 15 June 1989

10.00 a.m. Notice of Motion re: Alleged Misuse of
Public Funds

Thursday, 22 June 1989

9.30 a.m. Briefing by Research Officer

10.00 a.m. Re: Section 3.11 (1988)

From the Ministry of Natural Resources:

George Tough
Deputy Minister

Lou Lingenfelter
Director
Aviation and Fire Management Centre

John Queen
Acting Executive Director
Finance and Administration Group

John Kerr
Director
Financial Resources Branch

11.00 a.m. Motion re: Alleged Misuse of Public Funds
Notice of Motion re: Ministry of Housing

Thursday, 29 June 1989

10.00 a.m. Motion re: Ministry of Housing
Notice of Motion re: Ontario Place

Thursday, 6 July 1989

10.00 a.m. Motion re: Ontario Place
Re: Section 3.11 (1988)
Draft Report

Thursday, 20 July 1989

10.00 a.m. Re: Section 3.11 (1988)
Draft Report
New South Wales Delegation

Monday, 21 August 1989

9.30 a.m. Briefing by Research Officer

10.00 a.m.

Re: Sections 3.13 and 3.14 (1988)

From the Ministry of Transportation:

Alex Kelly
Assistant Deputy Minister
Engineering and Construction

Brian Riddell
Regional Director
Central Region

Richard Puccini
Executive Director
Municipal Transportation Division

Ian Nethercot
Director
Municipal Roads Branch

Tuesday, 22 August 1989

10.00 a.m.

Re: Sections 3.13 and 3.14 (1988)
Draft Report

Re: Section 3.7 (1988)

Briefing by Research Officer

From the Ministry of the Environment:

Gary Posen
Deputy Minister

Julyan Reid
Assistant Deputy Minister
Operations Division

André Castel
Executive Director
Corporate Resources Division

Jim Bishop
Director
Water Resources Branch

C.E. McIntyre
Executive Director
Approvals and Engineering Division

David Guscott
Director
Kingston Regional Office

Wednesday, 23 August 1989

10.00 a.m.

Re: Section 3.7 (1988)

From the Ministry of the Environment:

Gary Posen
Deputy Minister

David Balsillie
Assistant Deputy Minister
Environmental Services Division

Julyan Reid
Assistant Deputy Minister
Operations Division

André Castel
Executive Director
Corporate Resources Division

Jim Bishop
Director
Water Resources Division

C.E. McIntyre
Executive Director
Approvals and Engineering Division

David Guscott
Director
Kingston Regional Office

Thursday, 24 August 1989

1.00 p.m.

Re: Section 3.7 (1988)
Draft Report

Re: Section 3.11 (1988) and
Section 4.9 (1987)

Briefing by Research Officer

Monday, 28 August 1989

North Bay, Ontario

Re: Section 4.9 (1987)

Tour of North Bay Psychiatric Hospital

From the Ministry of Health:

J.C. Menzies
Administrator

L. Doyle
Acting Medical Director

L.C. Chapin
Assistant Administrator
Clinical Services

P.A. Lee
Assistant Administrator
Hospital Services

D. Barker
Acting Assistant Administrator
Hospital Services

J. Cameron
Assistant Administrator
Nursing Services

P.M. McCool
Regional Personnel Administrator

M.A. Fairhart
Public Relations Officer

Tuesday, 29 August 1989

North Bay, Ontario

Re: Section 3.11 (1988)

Tour of Aviation and Fire Management
Centre

From the Ministry of Natural Resources:

Tom Campbell
Supervisor
Fire Operations

Martin Healy
Program Manager

Wednesday, 30 August 1989 Thunder Bay, Ontario

Re: Section 3.11 (1988)

Tour of Aviation and Fire Management
Centre

From the Ministry of Natural Resources:

Tom Campbell
Supervisor
Fire Operations

Al Johnson
Program Manager

Re: Section 4.9 (1987)

Tour of Lakehead Psychiatric Hospital

From the Lakehead Psychiatric Hospital:

Jim Restall
Assistant Administrator
Support Services

Hilda Blake
Chair
Community Advisory Board

Jan Foster
Assistant Administrator
Clinical Services

Mary Cino
Assistant Administrator
Nursing

Dawn Eccles
Administrative Assistant

Tim Ellard
Chief Social Worker

Glenn Speirs
Maintenance Superintendent

From the Ontario Friends of Schizo-
phrenics, Thunder Bay Chapter:

Bob Schumacher
President

From the Alpha Court:

Betty Kennedy
Program Director
Case Management

Deanna Koizy
Program Director
Supportive Housing

From the Canadian Mental Health
Association:

Bev Cadene
Rehabilitation Program

Thursday, 31 August 1989 Dryden, Ontario

Re: Section 3.11 (1988)

Tour of Aviation and Fire Management
Centre

From the Ministry of Natural Resources:

Tom Campbell
Supervisor
Fire Operations

Trevor Woods
Program Manager

Monday, 11 September 1989

10.00 a.m.

Re: SkyDome

Briefing by Research Officer

From the Stadium Corporation of Ontario:

Charles Magwood
Past-President

Jamie MacArthur
Vice-President
Finance and Administration

Thursday, 2 November 1989

10.00 a.m. Draft Report

Thursday, 9 November 1989

10.00 a.m. Notice of Motion re: Ministry of Industry,
Trade and Technology

Thursday, 16 November 1989

10.00 a.m. Draft Report

Thursday, 23 November 1989

10.00 a.m. Motion re: Ministry of Industry, Trade
and Technology

Draft Report

Thursday, 7 December 1989

10.00 a.m. Draft Reports

Thursday, 14 December 1989

10.00 a.m. Report of Sub-committee

Provincial Auditor's Special Report
Re: Ontario Place Corporation

Draft Recommendations

Draft Report

Tuesday, 12 September 1989

10.00 a.m.
and
2.00 p.m.

Re: SkyDome

Tour of SkyDome

From the Stadium Corporation of Ontario:

Richard Peddie
President

Charles Magwood
Past-President

Jamie MacArthur
Vice-President
Finance and Administration

Wednesday, 13 September 1989

10.00 a.m.
and
2.00 p.m.

Draft Report

Thursday, 14 September 1989

10.00 a.m.
and
2.00 p.m.

Draft Report

Thursday, 26 October 1989

10.00 a.m.

Re: Ministry of Housing

From the Ministry of Housing:

Glenn R. Thompson
Deputy Minister

Gardner Church
Former Deputy Minister

Bryan Davies
Former Deputy Minister

Arnie Temple
General Manager
Corporate Resources Management

CA20N
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-P71

Government
Publications



Standing Committee on Public Accounts

First Interim Report
1989



2nd Session, 34th Parliament
38 Elizabeth II

STANDING COMMITTEE ON
PUBLIC ACCOUNTS



LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

COMITÉ PERMANENT SUR
LES COMPTES PUBLICS

Queen's Park
June 1989

The Honourable Hugh Edighoffer, M.P.P.,
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour
to present its Report and commends it to the House.

A handwritten signature in cursive script, reading "Ed Philip".

Ed Philip, M.P.P.
Chairman.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

MEMBERSHIP AS OF MONDAY, 8 MAY 1989

ED PHILIP
Chairman

PETER ADAMS

JOAN FAWCETT

BILL BALLINGER

CINDY NICHOLAS

BRIAN CHARLTON

BRAD NIXON

SHIRLEY COLLINS

GILLES POULIOT

DON COUSENS

NOBLE VILLENEUVE

Douglas Arnott
Clerk of the Committee

Ray McLellan
Research Officer

Allison Drummond
Research Officer

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PREAMBLE

The Standing Committee on Public Accounts held hearings during the period April 11 - 21, 1989 to discuss the 1988 Annual Report. These meetings included a review and assessment of the following sections in Chapter 3.

- S. 3.12 Concerns over Tax Collection, Motor Fuels and Tobacco Tax Branch; Ministry of Revenue.
- S. 3.3 Unsatisfactory Monitoring Procedures, General Welfare Assistance Program; Ministry of Community and Social Services.

This report presents a brief overview of the issues raised by the Provincial Auditor, the subject matter of the hearings and the Committee's observations and recommendations.

The Committee will prepare a series of interim reports on the 1988 Annual Report of the Provincial Auditor, addressing the specific sections, and a final Committee report.

The Committee would like to acknowledge the assistance provided by the Provincial Auditor and the staff of the Office of the Provincial Auditor; the officials of the Ministries of Revenue and Community and Social Services; the Clerk of the Committee; the Research Officers and the Legislative Library.

TAX COLLECTION, MOTOR FUELS AND TOBACCO TAX BRANCH, MINISTRY OF REVENUE

Overview

The Ministry of Revenue administers the province's major taxing statutes. The Motor Fuels and Tobacco Tax Branch operates within the Tax Revenue and Grants Program and administers several pieces of legislation which include the Gasoline Tax Act, the Land Transfer Tax Act, the Motor Vehicle Fuel Tax Act, the Provincial Land Tax Act, the Retail Sales Tax Act, and the Tobacco Tax Act. This program also administers related systems and acts such as the Ontario Pensioners Property Tax Assistance Act.

The Branch collects and administers revenues from gasoline, diesel and aviation fuels, and tobacco and land transfer taxes. As reported by the Auditor, for the 1988 fiscal year these revenues were in excess of \$2.4 billion. The main objective was to assess the adequacy and cost effectiveness of the Branch's processing controls.

Gasoline and Fuel Taxes

The collection of taxes on gasoline and fuel products in Ontario was addressed with respect to processing of tax returns, uncollected taxes on imported fuels and evasion of fuel taxes in export schemes. Most of the provincial taxes are collected by designated oil companies or at the refinery in the case of sales to the independent firms. The 44 designated collectors file and remit monthly, and 18 of these firms also collect other fuel taxes. Consumers are eligible for a tax refund if gasoline or fuel is used in heating or in unlicensed equipment such as farming and construction equipment. The illegal use of untaxed fuel has been an issue for some time. In 1982 the Ministry introduced a fuel inspection program and required that non-taxable fuel be dyed.

The Provincial Auditor concluded that overall controls for the processing and collection of gasoline and fuel taxes were adequate and cost-effective. However, the Ministry has been unable to collect over \$4 million in unpaid taxes identified by recently improved controls over imported gasoline and fuel products; and millions of dollars in fuel taxes have been lost through export evasion schemes. The earlier problems with interprovincial movement of fuel are now under control, according to the Ministry, and the focus is now on the international dimension.

Processing of Tax Returns Adequate

The Committee has concurred with the Auditor that adequate controls are in place in the processing of fuel and gasoline tax returns. The tax collection system is generally cost effective, returns are properly verified and filed, and incorrect information in returns and refunds were adequately addressed.

Uncollected Taxes on Imported Fuels and Significant Evasion of Fuel Taxes Through Export Schemes

A 1987 federal/provincial agreement requires that importers pay federal excise and sales taxes before clearing Customs or having the fuel dyed by Customs. If not designated, importers file a tax return to remit provincial taxes on gasoline and non-dyed fuel brought into Ontario. When this group of fuel is taxed federally at the border the province is informed, although provincial tax can be avoided if an importer falsifies company information.

The Auditor concluded that in an effort to reduce loss of tax revenue, the Ministry should negotiate with the federal government to have federal Customs Officers collect provincial taxes at the border and the Ministry could pursue the registration of fuel importers. Importers are not required to be registered with the province, therefore bonding was discussed as an alternative to ensure that outstanding taxes are collected.

The Ministry's initial response acknowledged the merit of the Auditor's recommendation. Tax collection at the border from importers is complicated, according to the Ministry, by trans-shipped products which are taxed in another province. The requirement for fuel importer registration with bonding was seen by the Ministry to be an effective alternative. Legislative amendments for registration have been proposed by the Ministry and are a high priority.

Exported fuel products are exempt from tax and if paid, federal and provincial taxes are refunded on export. Tax evasion can result under several export schemes which could involve switching tax exempt dyed fuel intended for use in Ontario and

non-dyed fuel intended for export and selling non-dyed fuel in Ontario tax free. Ontario dyed, non-taxable fuel has been identified in road use in the U.S.

The Petroleum Excise Tax Task Force is investigating tax evasion in the U.S. and according to the U.S. Department of Justice, Organized Crime and Racketeering Section, significant amounts of taxes are avoided yearly. The combined U.S. taxes, for example, federal and New York State, are smaller than Ontario's rate, therefore the incentive to use export schemes to avoid taxes is great in Ontario.

The Provincial Auditor was of the opinion that the Ministry should establish formal communications procedures with neighbouring states so that they would be notified of gasoline and fuel imported from Ontario. By notifying these adjoining states, Ontario fuel products would be identified and taxed by these U.S. jurisdictions. Collection of local taxes by these states would effectively reduce the incentive for fraudulent activities. Secondly the Ministry should make greater use of inspectors to monitor fuel exports at Canadian Customs locations. Finally the Ministry should participate on the Petroleum Excise Tax Task Force in order to develop and implement practical solutions to the problem of petroleum tax evasion.

The Ministry of Revenue pointed out that many U.S. and Canadian agencies cooperate in an effort to control tax evasion on petroleum products. Ontario initiatives include Canada/U.S. border state arrangements to exchange information, and in the future exchange documents on petroleum products traffic; a co-operation program with Quebec and the federal government (1987) to monitor and control the import of petroleum products; and Ontario inspector blitzes at the border to monitor exports and verify product and transit documents. Finally the Motor Fuels and Tobacco Tax Branch officials and the Special Investigations Branch share information at federal and state levels and with other provinces as well as with the OPP and RCMP.

The Ministry's statement before the Committee explained that it is difficult to precisely estimate the extent of tax evasion. The Ministry officials expressed concern that their actions are largely reactive and that additional industry controls place cost restrictions on legitimate business. The dynamic nature of evasion points to the need for new and improved remedies on a continuous basis, according to the

Ministry. The Ministry is developing such new responses as on-road monitoring, information sharing, legal amendments for registration, bonding and reporting for importers and exporters.

The Ministry discussed the fact that fuel was being brought into Ontario and the shippers declared the fuel for non-taxable purposes to avoid taxation. The Ministry worked with the federal government and the Province of Quebec to address this and according to the Ministry officials, the use of dye stock addressed the problem at the time.

As mentioned, the federal government gives the Province notice of tanker trucks entering Ontario. It is then the Province's responsibility to find the shipments and to tax them. This presents problems due to falsified company addresses, for example. The Ministry became concerned over this problem and identified the need to collect provincial tax at border points and set up a registration of fuel importers. If importers are not able to meet such requirements then an alternate system of a security or cash would be required at the border. This would set out a parallel checking system.

The Committee addressed the possibility of establishing designated border point crossings for fuel in the Province as a check in addition to the Province conducting checks or a "blitz." The Ministry is proposing an administrative arrangement with the federal government possibly on a fee-for-service basis. Provincial employees would not be required in this federal collection option and the proposed registration system would further assist to reduce the incentive for tax evasion. The federal officials have their own audit, detection and investigation procedures to which the Province can make suggestions in the examination of product.

The Ministry is in the process of preparing draft legislation requiring the registration of vehicles and the collection of provincial taxes at border points. The bonding arrangements or credit requirements would be a corollary to the registration. The additional requirement would be a federal/provincial system to collect provincial taxes. The registration of both importers and of exporters would be filed with the Ministry which would require regular tax returns. Secondly, a condition of registration would require the firm to post a bond. The existing system of cargo control documents at the border is a cross-check filed by the federal border inspectors. The options are to

either register or pay the tax at the border. The Ministry is of the opinion that the registration process is the critical approach to resolve the problems, although the role of the federal government in providing a mechanism for tax collection at border points is not finalized.

The Committee therefore recommends that:

- 1. The Ministry of Revenue should pursue negotiations with the federal government to have the federal customs officers collect provincial taxes on gasoline and fuel products being imported into Ontario.**

The Committee pursued the multifaceted aspects of the tax evasion problem on imported fuels with the Ministry, specifically discussing the techniques employed in the evasion schemes, and the treatment of the major importing firms versus the smaller occasional importers. The members of the Committee recognize the need for new legislation to address these problems.

The Committee supports the option to register and bond fuel importers. The members are of the opinion that every effort should be made to introduce the proposed legislation in the Legislature in the future and that the difficulties experienced in this tax area are of a serious nature.

The Committee therefore recommends that:

- 2. Fuel importers and exporters should be registered and bonded and legislation to implement these requirements in the fuel products industry should be introduced in the Ontario Legislature.**

The members of the Committee are of the opinion that the evasion of fuel taxes is becoming a progressively serious matter of international dimensions and that the penalty for involvement should reflect the growing concern over this issue. It was concluded that violations of the legislation governing the import and export of fuels should result in fines and/or penalties of greater consequence.

The Committee therefore recommends that:

3. Convictions under the legislation governing the import and export of fuels should result in stricter fines and/or penalties and the severity of the penalty should increase significantly with each subsequent offence. Furthermore, the Committee's concern over violations, as outlined in this report, should be addressed by the Deputy Minister of Revenue and forwarded for due consideration in any future legislative amendments.

The Ministry of Revenue has been pursuing the many associated problems of fuel tax evasion with the federal government. The Province of Ontario, the federal government and the Province of Quebec have experienced a high degree of co-operation on this matter. The Committee is of the opinion that the federal and provincial government should continue to co-operate in what has become an international problem.

The Committee therefore recommends that:

4. The Ministry of Revenue should initiate the following steps, which are supported by the Provincial Auditor in an effort to address illegal activities in petroleum products:
 - establish formal communications procedures with neighbouring states so that they would be notified of gasoline and fuel imported from Ontario. By notifying these adjoining states, Ontario fuel products would be identified and taxed by these U.S. jurisdictions. Collection of local taxes by these states would effectively reduce the incentive for fraudulent activities;
 - make greater use of its inspectors to monitor fuel exports at Canadian Customs locations (including sampling); and
 - participate on the Petroleum Excise Tax Task Force in order to develop and implement practical solutions to the problem of petroleum tax evasion.

In the consideration of the international dimensions of the tax evasion problem involving U.S. firms, the Committee requested a statement on the magnitude of the problem and the extent to which these problems are carried out through well-established criminal channels. The Ministry is of the opinion that the various criminal schemes to avoid taxation are systematic and carefully directed. One of the major concerns is that exporters can purchase coloured diesel fuel and export the product to the U.S. where dyed fuel is permitted without a tax obligation to Ontario.

The Ministry discussed their special investigations branch, which pursues suspicion of fraud reports, and the recently established Petroleum Excise Tax Task Force with which the Ministry has been involved. According to the office of the Solicitor General, the investigation being carried out by the Petroleum Excise Tax Task Force is a joint Canada-U.S. initiative which includes the Anti-Rackets Branch of the Ontario Provincial Police. In light of the recent events concerning toxic wastes, the approach is being realigned to address the increasing complexity of the investigation. The office of the U.S. Department of Justice in Buffalo, New York, was unable to offer additional information on the Task Force proceedings because the investigation is ongoing and is subject to the grand jury process which requires absolute secrecy.

The Committee is of the opinion that the evasion of fuel taxes should receive more attention in an effort to correct the problem.

The Committee therefore recommends that:

- 5. The evasion of fuel taxes should be pursued vigorously by the Solicitor General, the Ontario Provincial Police and other law enforcement officials.**

The Committee is aware of the investigations and convictions in U.S. tax evasion cases in recent years which have involved non-existent supply companies and false documents. New York State passed legislation to address these problems.

The Committee is of the opinion that the Government of Ontario should continue to support the Petroleum Excise Task Force. Secondly, those involved should establish a reciprocal relationship with other Canadian task forces and groups investigating criminal activities at the provincial and federal levels to ensure an exchange of information and/or documents to further the objective of reducing illegal activities in this tax area.

The Committee therefore recommends that:

- 6. The Province of Ontario and more specifically the Solicitor General through the Ontario Provincial Police should continue to support the Petroleum Excise Tax Task Force. The Ministries involved in this effort should establish a reciprocal relationship with other task forces and groups investigating criminal activities at the provincial and federal levels in Canada in an effort to further an exchange of information and/or documents.**

The Committee may request to meet with the Deputy Minister of the Ministry of the Solicitor General to discuss the progress made on this broad subject in the future.

Tobacco Tax

The Tobacco Tax Act requires that a tax be paid on all tobacco products with limited exemptions such as export sales, duty free shops, diplomats and native Indians. There are approximately 130 tobacco tax collectors in Ontario who send the Ministry monthly sales statements which include wholesalers and manufacturers/importers. The wholesaler recoups the tax on the sale to retailers.

The Provincial Auditor concluded that controls over the collection of tobacco taxes were satisfactory and cost effective. Although controls over interprovincial cigarette sales have been improved, the smuggling of tax-exempt exported cigarettes back into Ontario could be costing the province \$10 million to \$15 million annually.

Satisfactory Control over Revenue Collection

The Committee agrees with the Auditor's findings that adequate controls exist in tax collection for tobacco products. For example, the manufacturers' monthly sales report system is cost effective and tax return calculations are accurate.

Tax Revenue Lost to Smuggling

In 1984 improved export regulations among provinces were brought in to ensure that cigarettes would be taxed in the province in which they are consumed thereby reducing smuggling. Contraband cigarettes are smuggled into Canada and this problem is difficult to resolve according to Canadian Customs. The tax exempt export of Canadian cigarettes to the U.S. and illegal return to Canada yields substantial profits.

The Auditor suggested that smuggled cigarettes could be identified in Canada if they were clearly marked on the package for export, which indicates that taxes have not been paid. The Ministry could actively publicize the new marking system once it is in

place, impose a stiffer penalty on individuals caught selling and buying contraband tobacco products, and offer rewards for information leading to the discovery of contraband tobacco.

The Ministry's initial response was that a high tobacco tax contributes to tax evasion and enforcement is difficult among jurisdictions with variable tax rates. Ontario has taken the following initiatives:

- The introduction of control measures (permits and quotas) to address excessively high tax-free purchases by native Indians;
- An information exchange system between provinces has been established to address tax evasion (1984);
- Amendments were introduced in 1986 to address a situation in which exemptions were claimed for exports to another province and the product was not reported at the destination;
- An exchange of information agreement was concluded with New York State and negotiations are ongoing with other border states;
- A package marking system is being developed to identify products on which tax has been paid. This would identify illegal tobacco products from the U.S. and also goods shipped to other provinces; and
- Legislation has been drafted to address tobacco tax evasion with increased penalties (seizure without return unless product obtained legitimately).

According to the Ministry this legislation is currently at the internal ministry consultation stage.

The Ministry's statement before the Committee confirmed the Auditor's findings and agreed with the seriousness of the tax evasion problem. Controlling tobacco movement in Ontario Indian reserves was earlier addressed within the province and later became an interprovincial and then international problem. The Ministry has reacted with "information agreements" to check the movement of tobacco products initially with New York State and of course with other provinces.

The Ministry's position is that package marking is a solution to this illegal movement of products. According to the Ministry, the current system of tax collection offers a perfect cross-check system between the manufacturers and wholesalers with records of shipment and the return statement of the manufacturer. The proposed marking system

would require that only the "Ontario marked" cigarettes would be shipped to Ontario retail destinations. The control would rest at the retail level, where products sold should have the appropriate Ontario mark indicating that provincial taxes have been paid. The intent is that the program would be self-policing, that is the general public would be made aware of the marking system and would in turn notify the authorities in the event of deviations. The Ministry wants a highly visible marking system easily monitored by tobacco tax auditors and retail sales tax auditors.

The Committee pursued the matter of penalties in the event of violations. The Ministry pointed out that higher penalties are under consideration and that changes will be proposed. With respect to the marking system the Ministry has the regulatory capacity to prescribe the markings, although the Ministry is of the opinion that supplementary legislation with respect to penalties will be required.

The Committee is of the opinion that the marking system is a viable alternative to assist in the detection of tax avoidance and that the penalty should be of sufficient consequence to discourage this activity.

The Committee therefore recommends that:

7. Regulations to implement the marking system and new legislation to establish severe penalties for convictions in tobacco tax evasion should be prepared. The severity of the penalty should be increased with subsequent convictions. Consideration should be given to this Report at such time that this legislation is referred to a committee of the Legislative Assembly.

As discussed by the Ministry, the proposed package marking system would be dependent in part on self-policing, requiring public involvement and support for the system. A promotional or educational program may be required to achieve the desired results.

The Committee therefore recommends that:

8. The Ministry of Revenue should ensure that the new tobacco package marking system is adequately advertised in an effort to educate the public and ensure an awareness of tax avoidance. The public should be encouraged to assist in this program which could be facilitated through a toll-free telephone number to notify the authorities of infractions.

Improper Tax Exemption Granted

In 1986, Auditors with the Motor Fuel and Tobacco Tax Branch reported that a manufacturer had given cigarettes to employees at the rate of three million cigarettes per year. The Provincial Auditor was informed that a 1973 agreement between the Branch Director and the manufacturer exempted these products from the tax. The Tobacco Tax Act does not permit such an exemption except as regulated by the Lieutenant Governor in Council.

The exemption was granted, according to the Motor Fuel and Tobacco Tax Branch, for quality control testing. Fewer people are involved in this company division today and the current tax foregone has been substantially reduced.

The Committee expressed concern over the details of the quality control matter and the status of the exemption. The Ministry's assessment of the exemption was that it was not improper, and that the federal legislation, Bill C-51, An Act to prohibit the advertising and promotion and respecting the labelling and monitoring of tobacco products (1988) was referred to by the Ministry as effectively addressing the matter of the free distribution of tobacco products (s. 7(1)). The Committee would like to recognize and to commend the Ministry of Revenue's audit services personnel in identifying the exemption matter and informing the Provincial Auditor's office during their audit.

Members of the Committee are of the opinion that the main issues raised by the Provincial Auditor in tobacco products have been effectively addressed although, as pointed out by the Ministry, the incentive for innovative schemes of tax evasion will continue.

The Committee therefore recommends that:

9. The Ministry of Revenue should continue to monitor the sale and consumption of tobacco products generally. The Ministry should report to the Provincial Auditor within a year on the progress made on this subject. The Provincial Auditor will report on this issue in the annual report.

Land Transfer Tax

The Land Transfer Tax is paid by most purchasers of land in Ontario. The highest rate of this graduated tax is 1.5 percent of the cost of the real estate for residents. Non-residents pay a 20 percent tax to help discourage the purchase of agricultural and recreational real estate. This does not apply if the purchaser becomes a resident within two years.

The Provincial Auditor concluded that controls over land transfer tax transactions were less than satisfactory. More specifically the Ministry did not ensure that revenue received on its behalf by Land Registry Offices had all been deposited to the province's Consolidated Revenue Fund. Secondly, significant delays in land transfer tax assessments have jeopardized collection and prosecution efforts. Finally, a significant backlog of land transfer tax appeal cases also delayed decisions to taxpayers.

Assessments Properly Calculated

The Committee supports the Auditor's conclusion that processing controls are adequate to ensure assessments and refunds are computed accurately and are properly authorized in property purchases.

Lack of Ministry Control over Revenue Collected and Untimely Assessments Jeopardize Collection and Enforcement Efforts

Land Registry Offices forward taxes monthly to the Consolidated Revenue Fund (CRF) as a normal practice, although the Auditor was not satisfied with the reconciliation process used to ensure that all revenue was deposited in the CRF. The files from the Ministry of Consumer and Commercial Relations and the Land Registry Offices indicated unreconciled differences.

The Ministry's response to the Auditor was as follows:

The 'unreconciled differences' to which the Auditor refers result from different cut-off dates between the monthly statistical reports provided to (the Branch) by the individual registry offices and the monthly journal from (the Ministry of Consumer and

Commercial Relations') head office reflecting deposits of land transfer tax by CCR into the consolidated revenue fund. A proper reconciliation of the two reports could only be effected by CCR as (our Branch) does not receive supporting documentation with regard to all deposits or transactions.

A draft memorandum of understanding was prepared . . . and forwarded to CCR in February 1988. (Our Branch) has followed up with CCR to determine the status of that Ministry's review of the proposed agreement.

The Land Transfer Tax permits the Ministry to carry out an assessment audit to verify the reasonableness of the tax paid, that is to identify whether the purchase price is deliberately understated and if taxes are owing. In 1987, 80 assessments identified millions in unpaid taxes and interest from a high risk group including non-resident purchasers and numbered firms. The audit identified that there were numerous uncollected assessments: over 50 percent of these had been issued more than four years after the land purchase and another group was issued just under four years. These delays have interfered with collection and prosecution resulting in significant losses in taxes and interest.

The Auditor is of the opinion that more effort should be devoted to field audit activities to reduce these costs to taxpayers and to improve collection and enforcement. The Act sets out a six-year limit on prosecutions and the assessment delays undermine the chances of prosecution.

According to the Ministry, the Auditor's report identified non-resident corporations and corporate owners as the major problems. The non-resident land transfer cases are complicated by the difficulty in obtaining information by foreign correspondence. The Branch is considering increasing staff time for audits to reduce lapsed time although the Branch points out its budget and staff limits.

According to the Ministry of Revenue the control, auditing and management of land transfer tax funds is the responsibility of the Ministry of Consumer and Commercial Relations. The latter must ensure that payments are properly recorded and reconciled with amounts outstanding and finally deposited in the consolidated revenue fund.

Furthermore, the Ministry of Revenue has a good audit cycle on an annual basis for all of its offices which conform to good management standards.

The Committee expressed concern over the taxes not paid on numerous assessments. The Ministry's position is that the problem rests with the reconciliation of statistical reports provided to the Ministry by the individual registry offices. The Provincial Auditor pointed out that the issue is the difference between the monthly statistical reports from the land registry offices and the journal entry amounts deposited in the consolidated revenue fund.

The Ministry of Revenue noted that the Ministry of Consumer and Commercial Relations is an agent for the Ministry of Revenue and that it is subject to the basic standards of good financial management. The Ministry of Revenue is interested in very general terms in how money is being processed in the Ministry of Consumer and Commercial Relations and it does not have any indication of impropriety. The Auditor does not feel that there has been any misdirection of funds but is concerned with potential problems in a system that does not reconcile differences. The Ministry of Revenue pointed out that the Ministry of Treasury and Economics is more concerned with how revenues are flowing through to the consolidated revenue fund, in response to the impact of interest rate movements, for example. The responsibility on the part of the Ministry is for statistical information and not the precise management of the funds.

A draft memorandum of understanding was prepared to address the problem of the unreconciled differences discussed which result from different cut-off dates between the monthly statistical reports provided to the Motor Fuels and Tobacco Tax Branch by the individual registry offices. According to the Deputy Minister's office, Ministry of Revenue, the Memorandum of Understanding is at the final draft stage and not yet available. The Ministries of Revenue and Consumer and Commercial Relations are preparing the final text at the time of the writing of this report in June, 1989.

The Committee has concluded that the unreconciled differences between the Ministries do not suggest wrong doing in revenue collection procedures, but rather that a proper reconciliation is preferable on a monthly basis. Furthermore, in order to

address the possibility of the misappropriation of funds, the Memorandum of Understanding will clarify responsibilities among those involved with these funds on a daily basis and the concern for accountability expressed by the Auditor.

The Committee therefore recommends that:

10. The unreconciled differences in revenue collection reporting procedures between the Ministries of Revenue and Consumer and Commercial Relations should be resolved. The Ministry of Revenue should formalize the Memorandum of Understanding with The Ministry of Consumer and Commercial Relations to ensure that the responsibilities and expectations of these Ministries are clear and that proper reconciliation controls are in place. Periodic reconciliation reports should be forwarded to the Ministry of Revenue for review. The unreconciled differences should be resolved to the satisfaction of the Provincial Auditor and a statement by the Provincial Auditor should be submitted to the Committee on this matter. It is important to emphasize that the 1988 Auditor's Report does not suggest wrong doing in revenue collection procedures, but rather that a proper reconciliation is preferable on a monthly basis.

On the subject of property purchases, that is whether purchasers are residents or non-residents, the Ministry of Revenue is responsible for audits and ensuring that declarations at the land registry office are valid. The Committee pursued the matter of determining whether or not the sale price at the time of transfer was understated which would reduce the tax payable. The second area of possible infractions is the status of the purchaser, that is resident or non-resident. The Committee pointed out that the Ministry currently has a data base which could assist in ensuring compliance. The Auditor has two concerns, the delay problem which relates to non-residents and the extent of audit coverage, whereby Ministry officials review returns to ensure proper declarations.

The Committee has concluded that the land transfer tax evasion problem identified by the Provincial Auditor in real estate conveyances has resulted in costly infractions which could be reduced if the purchaser was required to pay the land transfer tax at the time of registration.

The Committee therefore recommends that:

11. Every person who tenders for registration of a real estate transaction in Ontario should be required to pay the land transfer tax in full at the time of registration, which would require that the necessary documentation, including verification of resident or non-resident status is submitted.

The Committee addressed the feasibility of Ministry verification of the tax value of every land transfer with the existing information and the use of a new form at the time of assessment so that assessors researching the sale would notify the Branch of suspected problems in the statement of the sales price. The Ministry responded that additional auditors have helped to minimize these infractions. The Ministry agreed that a mechanism could be put into place that would require a simple form indicating whether or not a sale price is legitimate for the sales analysis, which would in turn be forwarded to the land transfer tax officials.

The Committee has concluded that the Property Assessment Program in the Ministry of Revenue should give consideration to a new form at the field operations level that would require property assessors to assess the legitimacy of the sales price. The fact that some sales are non-market purchases, for example between family members, would have to be taken into account. Criteria would be required to categorize sales and to address significant deviations from the market value at the field level by the assessment personnel. The sales price information would be filed with the officials in the Motor Fuels and Tobacco Tax Branch to review the tax paid in the land transfer procedure.

The Committee therefore recommends that:

12. **The Ministry of Revenue should give consideration to a modification in the property assessment form at the field operations level which would require property assessors to indicate in the "sales information section" of the Ministry's Appraisal Cards whether the sales price is legitimate and also an accurate market value. Criteria to help field personnel in the assessments would be required to categorize sales which would help to identify significant deviations from the actual market value. The sales price information would be filed with the Motor Fuels and Tobacco Tax Branch for verification with the tax paid in land transfers.**

The Committee has concluded that more effort should be devoted to field audit activities in an effort to improve collection and enforcement.

The Committee therefore recommends that:

13. More effort should be devoted to field audit activities in an effort to improve revenue collection and enforcement procedures, and the Ministry of Revenue should prepare a progress report for the Provincial Auditor on the control over revenue collection, specifically taking into account the need for additional staff at peak periods for investigations.

Significant Backlog in Appeals

Following an audit and assessment the taxpayer has 180 days to object. The Auditor's review of notices of objection in the 1988 fiscal year indicated that several appeals were outstanding over 12 months and in one case for three years. Only two cases were decided by the Branch during the year and only one part-time person handles the land transfer tax appeals.

The Tax Appeals Branch acknowledged the number of objections (Land Transfer Act), and pointed out that the majority of the objections deal with the issue of using corporations as bare trustees to avoid the 20 percent tax on non-residents' purchase of agricultural land. They will probably be resolved as a group according to the Ministry and may be appealed to the Supreme Court of Ontario. An additional Appeal Officer was assigned to the land transfer tax work load.

The Committee addressed the purchase of property by non-residents and the use of bare trustee "share transfer" method for tax evasion purposes. This tax avoidance scheme has now been closed according to the Ministry, although numerous cases are at the appeals stage from the earlier period when it was being exploited. The Ministry recognizes that there is a backlog, but it is not overly concerned as 50 percent have been cleared in favour of the Ministry. The remainder will be confronted by the normal delays expected in the audit and appeals process such as the collection and reconciliation of information, and the translation of foreign documents. It is anticipated that these cases will go to court. These appeals are not normal because the standards and requirements usually used do not apply to complicated tax devices and transactions. In summary, the delay in the appeal process is in hand according to the Ministry and the Committee was assured that provincial interests are secured through

the formal Branch examination, audit and assessment. The appeal by the taxpayer is a search for mistakes in the assessment. In these "backlog" cases the Tax Appeals Branch is upholding the decisions and the decision to be made by the taxpayer is whether to go to court.

The Provincial Auditor's officials recognize that this tax avoidance scheme is closed, although the Ministry pointed out that alternative approaches will be attempted and that these problems are of a recurring nature, necessitating legislative amendments in the future.

In summary, the Committee has concluded that the Ministry of Revenue should submit a report in response to the concerns identified by the Provincial Auditor and the Committee's recommendations. The Committee may recall the Ministry of Revenue officials to discuss the Ministry's report in the future.

MONITORING PROCEDURES, GENERAL WELFARE ASSISTANCE PROGRAM

Introduction

The General Welfare Assistance Program (GWA) of the Income Maintenance function of the Ministry of Community and Social Service was subject to an audit in 1988, at which time the Provincial Auditor noted unsatisfactory monitoring procedures in several areas. Ministry representatives appeared before the Committee on April 18, 1989 to discuss the issues raised by the Auditor's Report and Ministry responses thereto.

It is important to note that the audit was conducted in the spring of 1988. In the aftermath of the release of Transitions, the report of the Social Assistance Review Committee, the Minister made commitments regarding delivery which will change the environment in which the audit was conducted. The Minister's statement was:

. . . we will now begin the task of moving towards new legislation which will consolidate the Family Benefits and General Welfare Assistance Acts. We must also address the question of provincial/municipal cost sharing and decisions regarding delivery.

(Statement to the Legislature
by the Honourable John Sweeney
May 18, 1989)

Overview

The General Welfare Assistance Program had expenditures of \$604,010,871 in 1987-88 (the fiscal year audited), and an average of 212,180 people receiving GWA benefits per month. It is, however, the smaller of the two major income maintenance programs; the Family Benefits Program (FBA) had expenditures of \$1,156,683,603, and had an average 324,367 beneficiaries per month.

The General Welfare Assistance Program is intended to provide short-term financial aid to people with no other means of support, but who are expected to rejoin the workforce relatively quickly; Family Benefits are designed to provide longer-term support to people whose chances of entering the workforce are lower (mainly the disabled and mothers with young children). One major difference between the two programs, and one which affects the Ministry's ability to monitor programs, is that General Welfare Assistance is actually delivered to beneficiaries by municipalities, though all three levels of government are involved in funding the program.

The other program discussed by the Auditor is the Ontario Drug Benefit Program, administered by the Drug Programs Branch of the Ministry of Health. Under this program, all residents of Ontario who are over the age of 65, or who are receiving FBA or GWA benefits are eligible for free prescription drugs. Expenditures under the program as a whole were \$501,364,681 in 1987-88, but the Auditor was considering only the section of the program providing prescription drugs to GWA recipients. This section of the program had expenditures of \$25 million in 1987-88, paid by the Ministry of Health and reimbursed to it by the Ministry of Community and Social Services.

Weaknesses in Review of GWA Claims

As noted by the Auditor, some 350 municipalities and Indian Bands were administering the GWA program in 1987-88. However, 12 major municipalities were administering 90 percent of GWA expenditures.

Auditor's Conclusions and Findings

The Auditor's overall finding on this section of the report was that the Ministry had devoted insufficient resources to monitoring GWA claims. This lack of resources was reflected in infrequent eligibility reviews, insufficient staffing (which led to Eligibility Review Officers being unable to conduct the file and eligibility reviews they were responsible for), and insufficient guidance from the Ministry on standard information to be collected from municipalities.

Committee Discussion

A good deal of the Committee's discussion revolved around this issue, and the possible consequences for the integrity of the program. First of all, however, the Ministry discussed its response to the Auditor's findings.

- Three new program review officers have been hired in Metro Toronto (where insufficient staffing was noted by the Auditor); and
- A "base review" is being conducted in the income maintenance program.

The Committee then discussed a number of issues around monitoring of both municipal delivery and recipients of GWA. The split jurisdiction over GWA was seen to contribute to inadequate monitoring, unequal administration of, for example, work search requirements, and overly intrusive monitoring of recipients in some municipalities. The Ministry's response was that, at present, resources are stretched and delivery is taking priority over monitoring; and that the split jurisdiction is a policy which, for the moment, the Ministry is committed to, and which offers some advantages in flexibility and responsiveness to local conditions.

The Committee therefore recommends that:

14. The accountability process now being developed by the Ministry, in response to a Management Board directive, should address the problems with the resources devoted to monitoring the GWA program and the duties of the review officers. The Committee will recall the Ministry early in 1990 to review the Ministry's action on these issues.

Lack of Monitoring at Head Office Level

The Ministry of Community and Social Services is one of the most decentralized in the government due to a policy decision made over a decade ago. Ministry funded and direct delivery programs are administered by four regional and 13 area offices. The difficulties in monitoring expenditures under a decentralized system, as well as the advantages in flexibility and local service, were discussed in the Committee's hearings.

Auditor's Findings and Conclusions

Head office monitoring of expenditures by municipalities on the GWA Program was largely informal, with Area Review Officers seldom providing written reports on the visits to municipalities, those few reports not being forwarded to head office. Municipalities were not being asked to provide standard information to the Ministry.

Committee Discussion

The Ministry's response to the concerns raised by the Auditor was in essence that the Comprehensive Income Maintenance System (CIMS, the new computer system for the Ministry's income maintenance program) will fill most of the management information needs of the Ministry. It was acknowledged that there is a lack of management information at present. On the issue of collection of standard information from municipalities regarding over payment prevention and recovery, the Ministry is currently negotiating agreements with 121 municipalities on standard policies.

Committee discussion and a comment by the Auditor's office indicated that the major problem seemed not to be overpayments per se, but that the Ministry had so little information on the issue, preventing effective management. The establishment of a central investigation unit, to monitor from head office, was viewed favourably by both the Committee and the Ministry.

The Committee therefore recommends that:

15. The Ministry be recalled early in 1990 to report on whether the accountability process and the expected implementation of CIMS (the Comprehensive Income Maintenance System) in municipal offices has resolved the management information problems identified by the Auditor.

Better Controls Needed over GWA Drug Benefits

The divided jurisdiction and weakened lines of accountability perceptible in the GWA Program as a whole are also present in the Ontario Drug Benefit Program for GWA recipients, with the participation of another ministry. The system being addressed by the Auditor is a complicated one: a new recipient of GWA is immediately eligible for

Drug Benefits, and receives a manually issued Drug Benefit Eligibility Card; the recipient then gives the Card to a pharmacist, who keeps it until the end of the month, filling all prescriptions using the same Card. Computer-generated Cards are then issued monthly, with the recipient's assistance cheque. The GWA population is by its nature changing constantly (people who are in longer-term need are supposed to be on FBA), but it is important to note that the 7,000 Cards issued manually in Metro Toronto each month are only for new entrants to the system, and it is the manually-issued Cards which are being referred to in the Auditor's Report.

Auditor's Findings and Conclusions

The Auditor noted two areas where Ministry monitoring of the program was inadequate. First of all, the Ministry of Health is responsible for monitoring proper use of the Drug Benefit Cards, but does not receive information from Community and Social Services which could allow automatic checking of the Cards issued to GWA recipients. At the same time, the Ministry of Community and Social Services has only a limited ability to check the validity of the billings it receives from the Ministry of Health for drugs provided to GWA recipients. Secondly, municipalities do not have standard procedures in place to safeguard blank cards to be issued to new entrants to the system.

Committee Discussion

The Ministry is addressing a number of the issues raised by the Auditor, conducting negotiations with the Ministry of Health to improve controls and issuing a directive to municipalities in October of 1988 to improve controls over blank cards. Its planned implementation of the Comprehensive Income Maintenance System is also expected to improve the quality and speed of information provided to the Ministry of Health on GWA recipients.

The Committee asked a number of questions on this point. Concerning the administration of the program, the Ministry stated that municipalities presently issue the cards, even though they do not contribute to the Ontario Drug Benefit Program, so that the issuing of cards can be more streamlined; and that it is planning to leave the administration of the program with the Ministry of Health. The sheer scale of the program and the possibility of double-doctoring and over-prescribing were also

discussed. The Ministry responded that the Lowy Inquiry (Inquiry into the Acquisition, Distribution, Dispensing and Prescribing of Pharmaceutical Medications) has made recommendations which have improved controls over the cost of prescription drugs; they also noted that the average number of drug claims per beneficiary has remained constant, and that increased expenditures on the program are directly related to increased drug costs.

The Committee therefore recommends that:

16. The Ministry be recalled in early 1990 and questioned as to whether the expected implementation of CIMS will allow the Ministries of Community and Social Services and Health to monitor the eligibility of GWA recipients of drug benefits more satisfactorily.

RECOMMENDATIONS

TAX COLLECTION, MOTOR FUELS AND TOBACCO TAX BRANCH, MINISTRY OF REVENUE

1. The Ministry of Revenue should pursue negotiations with the federal government to have the federal customs officers collect provincial taxes on gasoline and fuel products being imported into Ontario.
2. Fuel importers and exporters should be registered and bonded and legislation to implement these requirements in the fuel products industry should be introduced in the Ontario Legislature.
3. Convictions under the legislation governing the import and export of fuels should result in stricter fines and/or penalties and the severity of the penalty should increase significantly with each subsequent offence. Furthermore, the Committee's concern over violations as outlined in this report should be addressed by the Deputy Minister of Revenue and forwarded for due consideration in any future legislative amendments.
4. The Ministry of Revenue should initiate the following steps, which are supported by the Provincial Auditor in an effort to address illegal activities in petroleum products:
 - establish formal communications procedures with neighbouring states so that they would be notified of gasoline and fuel imported from Ontario. By notifying these adjoining states, Ontario fuel products would be identified and taxed by these U.S. jurisdictions. Collection of local taxes by these states would effectively reduce the incentive for fraudulent activities;
 - make greater use of its inspectors to monitor fuel exports at Canadian Customs locations, (including sampling); and
 - participate on the Petroleum Excise Tax Task Force in order to develop and implement practical solutions to the problem of petroleum tax evasion.
5. The evasion of fuel taxes should be pursued vigorously by the Solicitor General, the Ontario Provincial Police and other law enforcement officials.
6. The Province of Ontario and more specifically the Solicitor General through the Ontario Provincial Police should continue to support the Petroleum Excise Tax Task Force. The Ministries involved in this effort should establish a reciprocal relationship with other task forces and groups investigating criminal activities at the provincial and federal levels in Canada in an effort to further an exchange of information and/or documents.

7. Regulations to implement the marking system and new legislation to establish severe penalties for convictions in tobacco tax evasion should be prepared. The severity of the penalty should be increased with subsequent convictions. Consideration should be given to this Report at such time that this legislation is referred to a committee of the Legislative Assembly.
8. The Ministry of Revenue should ensure that the new tobacco package marking system is adequately advertised in an effort to educate the public and ensure an awareness of tax avoidance. The public should be encouraged to assist in this program which could be facilitated through a toll-free telephone number to notify the authorities of infractions.
9. The Ministry of Revenue should continue to monitor the sale and consumption of tobacco products generally. The Ministry should report to the Provincial Auditor within a year on the progress made on this subject. The Provincial Auditor will report on this issue in the annual report.
10. The unreconciled differences in revenue collection reporting procedures between the Ministries of Revenue and Consumer and Commercial Relations should be resolved. The Ministry of Revenue should formalize the Memorandum of Understanding with The Ministry of Consumer and Commercial Relations to ensure that the responsibilities and expectations of these Ministries are clear and that proper reconciliation controls are in place. Periodic reconciliation reports should be forwarded to the Ministry of Revenue for review. The unreconciled differences should be resolved to the satisfaction of the Provincial Auditor and a statement by the Provincial Auditor should be submitted to the Committee on this matter. It is important to emphasize that the 1988 Auditor's Report does not suggest wrong doing in revenue collection procedures, but rather that a proper reconciliation is preferable on a monthly basis.
11. Every person who tenders for registration of a real estate transaction in Ontario should be required to pay the land transfer tax in full at the time of registration, which would require that the necessary documentation, including verification of resident or non-resident status is submitted.
12. The Ministry of Revenue should give consideration to a modification in the property assessment form at the field operations level which would require property assessors to indicate in the "sales information section" of the Ministry's Appraisal Cards whether the sales price is legitimate and also an accurate market value. Criteria to help field personnel in the assessments would be required to categorize sales which would help to identify significant deviations from the actual market value. The sales price information would be filed with the Motor Fuels and Tobacco Tax Branch for verification with the tax paid in land transfers.
13. More effort should be devoted to field audit activities in an effort to improve revenue collection and enforcement procedures, and the Ministry of Revenue should prepare a progress report for the Provincial Auditor on the control over revenue collection, specifically taking into account the need for additional staff at peak periods for investigations.

**MONITORING PROCEDURES,
GENERAL WELFARE ASSISTANCE PROGRAM:
MINISTRY OF COMMUNITY AND SOCIAL SERVICES**

14. The accountability process now being developed by the Ministry, in response to a Management Board directive, should address the problems with the resources devoted to monitoring the GWA program and the duties of the review officers. The Committee will recall the Ministry early in 1990 to review the Ministry's action on these issues.
15. The Ministry be recalled early in 1990 to report on whether the accountability process and the expected implementation of CIMS (the Comprehensive Income Maintenance System) in municipal offices has resolved the management information problems identified by the Auditor.
16. The Ministry be recalled in early 1990 and questioned as to whether the expected implementation of CIMS will allow the Ministries of Community and Social Services and Health to monitor the eligibility of GWA recipients of drug benefits more satisfactorily.

APPENDIX A:

**Standing Committee on Public Accounts
Terms of Reference**

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 90 (i)

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available;

APPENDIX B:
Schedule of Hearings



LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

APPENDIX B

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

April 1989

Tuesday, 18 April

10:00 a.m.
and
2:00 p.m.

1. Section 3.3
1988 Annual Report of
the Provincial Auditor

From the Ministry of Community
and Social Services:

Peter Barnes
Deputy Minister

Allan Kirk
Manager
General Welfare Assistance
Program Development Unit

Mark Woollard
Manager
Policy Development Section

Wednesday, 19 April

2:00 a.m.

1. Section 3.12
1988 Annual Report of the
Provincial Auditor

From the Ministry of Revenue:

Terry M. Russell
Deputy Minister

Derek Rowsell
Executive Director
Tax System Operations and
Design Division

Robert Moxley
Director
Motor Fuels and Tobacco
Tax Branch

Thursday, 20 April

10:00 a.m.

1. Section 3.12
1988 Annual Report of the
Provincial Auditor

From the Ministry of Revenue:

Terry M. Russell
Deputy Minister

Derek Rowsell
Executive Director
Tax System Operations and
Design Division

Robert Moxley
Director
Motor Fuels and Tobacco
Tax Branch

ISBN 0-7729-5882-3

CA20N
XC21
-P71



Standing Committee on Public Accounts



Second Interim Report
1989

2nd Session, 34th Parliament
38 Elizabeth II

STANDING COMMITTEE ON
PUBLIC ACCOUNTS



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LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

STANDING COMMITTEE
ON PUBLIC ACCOUNTS

SECOND INTERIM REPORT
1989

2nd Session, 34th Parliament
38 Elizabeth II

STANDING COMMITTEE ON
PUBLIC ACCOUNTS



LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

COMITÉ PERMANENT SUR
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Queen's Park
July 1989

The Honourable Hugh Edighoffer, M.P.P.,
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour
to present its Report and commends it to the House.

A handwritten signature in dark ink, reading "Ed Philip".

Ed Philip, M.P.P.
Chairman

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Clerk of the Committee

Ray McLellan
Research Officer

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PREAMBLE

The cost controls and resources monitoring of forest firefighting in the Ministry of Natural Resources were investigated by the Standing Committee on Public Accounts during June and July 1989. On June 22, 1989, the Deputy Minister of Natural Resources, the director of the Aviation and Fire Management Centre, the Acting Executive Director of the Finance and Administration Group and the Director of the Financial Resources Branch appeared before the Committee.

The Committee has proposed visits to forest firefighting centres in North Bay and Thunder Bay during the summer recess 1989. These trips may provide new insights into the issues and concerns discussed in June 1989. Any additional observations and conclusions will be addressed in the Committee's 1989 Annual Report.

INTRODUCTION

The Ministry's Aviation and Fire Management Centre (AFMC) has responsibility for forest firefighting and management, which includes prevention, prescribed burns, forecasting research, as well as the Extra Fire Fighting Activities. AFMC's objectives are to prevent personal injury, loss of life, and social disruption resulting from a forest fire; to minimize the negative impact of fire on public works, private property and the natural resources of Ontario; and to utilize the natural benefits of fire in achieving Ministry objectives for land and resource management. The province's fire centre is in Sault Ste. Marie and there are five regional centres in Timmins, Huntsville, Sudbury, Thunder Bay and Dryden. The AFMC program includes non-scheduled government air transportation and radio communication services for Ministry field operations. A network of attack bases are strategically positioned in Northern Ontario and are staffed by fire crews from April to October.

The Auditor's review of the forest fire detection and suppression operations was carried out at the Aviation and Fire Management Centre in Sault Ste. Marie and the regional fire centres in the Northwestern, North Central and Algonquin regions. The objectives of the audit were to assess the adequacy of controls for the economical procurement of equipment, including aircraft, and the efficient use of staff and equipment.

AVIATION AND FIRE MANAGEMENT

The Committee reviewed the following main subject areas in the AFMC: maintenance facilities for water bombers, reviews of major fires, allocation of fire crews and monitoring of response time to fires.

Acquisition of Equipment

The Committee did not allocate the majority of its time to the acquisition of equipment, but it notes the Auditor's conclusion that controls over the economical acquisition of equipment were generally adequate. The Auditor also pointed out that the Ministry's water bombers cannot be cost-effectively serviced due to inadequate hangar facilities.

The Ministry's air fleet includes nine Canadian-made water bombers (CL-215s), three of which were new in 1987, five Twin Otters and five helicopters, for a total of 19 firefighting aircraft. Also included are a leased water bomber aircraft, helicopters, detection aircraft and other auxiliary equipment such as portable water pumps, trucks, etc.

During the five years ending March 31, 1988, the Ministry purchased equipment, supplies and services, including attack base supplies, water pumps, water bombers and aircraft rentals, for a total cost of \$146 million.

The Committee raised the subject of support from other jurisdictions. The Ministry explained that there is a formal arrangement among the provinces and with the federal government for shared assistance. The U.S. is also a partner in this arrangement. A centre in Winnipeg provides the co-ordinating mechanism for the distribution and allocation of revenues. The agreement is called the Mutual Aid Resource Sharing Agreement (MARS).

Water Bomber Maintenance Facilities

The Ministry submitted an application to Management Board of Cabinet in early 1986 for approval to construct a hangar to consolidate existing facilities in the Sault Ste. Marie area and to accommodate the new water bombers. The application for construction was not approved at that time because two other options were being considered to address this need; the renovation of facilities or a possible leasing arrangement.

The Ministry pointed out that some of the new CL215 water bombers are larger and cannot be accommodated in the Ministry hangar facilities in Sault Ste. Marie. Also, leased private space in Sault Ste. Marie and limited maintenance capabilities in Timmins are not adequate for the required "winter months" maintenance programs. The Ministry needs five fully serviced water bombers at the beginning of each fire season. Fewer aircraft than this complement could compromise the effectiveness of the program. The Deputy Minister explained that the Ministry is fully aware of this problem and the matter is a major priority. Approval has been received from Cabinet

to proceed with the design and the development of cost estimates for a new hangar and the Ministry has confirmed that it intends to proceed with the project as quickly as possible.

Utilization of Equipment and Staff

According to the Auditor, the overall monitoring of the use of staff and aircraft needs to be improved to ensure more efficient utilization of these resources. While the Ministry had a policy in place to self-evaluate its firefighting performance, only one region had implemented it. Secondly, it was recommended that fire crews must be allocated more systematically to ensure that they are located where they are most needed. Thirdly, recurring problems with the deployment of fire crews and response times were not being identified and corrected.

The Committee inquired about the status of computer assistance in firefighting. The Ministry explained that the AFMC's computer system was installed in 1987 in the five regional centres. The Fire Management Software System provides weather, fire and resource information and predictions on fire activities and occurrence. In 1988, the system was expanded to include a linkage of the five regional centres and Sault Ste. Marie in a "communications network." Voice and data communication between five fire bases is provided by satellite. A prototype for a new initial attack dispatching system has been set up in Thunder Bay for further development and evaluation.

The Committee discussed the subject of fire detection over the long term, taking into account such factors as climatic changes. The Ministry pointed out that the trends in the total number of fires and the accuracy of predicting devices are regularly investigated. The Ministry uses drought indices which require the staff to assess moisture in the soil layers and water table levels. This is the base indicator for assessing the type of fire season. The spring weather is the unknown factor with respect to seasonal rainfall or dry periods.

The Ministry is also able to assess fire potential in a region based on the type of forest (deciduous/coniferous field mapping). The Ministry pointed out that more research has to be done in the area of "burn capability" in addition to the field mapping, for example the age of the forest, amount of understory, etc., coupled with weather, mix of tree types, soil depth and moisture holding capability.

The Ministry maintains precise records on the number of fires and the extent of damage, but Ministry officials explained that it is difficult to establish trends. The fire region in Ontario is an extension of the dry continental climate of the West and, generally, there has been no improvement in the number of fires over the years. The Ministry is not able to make predictions based on a series of warm years or a general climatic warming. As a contributor to the problem, the "cause" of fires (such as lightning) has received more attention than the general shifts in climate.

The Ministry's weather station network and the services of the federal Atmospheric Environment Service provide the coverage for fire managers. Additional research is planned to study the use of computer capability in calculating fire-weather risk in the province's fire protection area. Finally, the Ministry is upgrading its lightning direction finders and incorporating a wind-measuring system during the period 1987-92.

The Committee is of the opinion that the Ministry and specifically the AFMC should be able to compare its efficiency and effectiveness in the management of fire detection and fire fighting among regions in Ontario and against other jurisdictions abroad as well as across Canada. There may be an established standard or ratio for comparisons which could be of assistance and if not, a standard for comparison could be developed over the long term against which the AFMC could measure its effectiveness.

The Committee therefore recommends that:

1. In an effort to enhance the management of forest firefighting, including the "early detection success rate" and the efficiency and effectiveness of the AFMC, the Committee requests that the Ministry of Natural Resources (AFMC) report back to the Provincial Auditor on any existing measurement of forest fire management practices and procedures in use in Canada and in other jurisdictions. This information would be useful in the development of a standard or ratio for comparison of the effectiveness of fire management in Ontario.

The Committee has an interest in the broader context of firefighting, for example, the responsibilities of municipal governments and the private sector. The Ministry pointed out that there are agreements with the forest industry whereby the companies initiate the initial fire attack and the Ministry provides back-up support. An emergency situation is determined by MNR staff evaluating the seriousness of the fire in the context of their "prediction system" and data on the situation in all regions. Communities in emergency fire situations are assisted by the Ministry through evacuations and other preventative measures. This is referred to as the emergency mode. A provincial/municipal agreement establishes how and when the Ministry responds, the basis for resource sharing, costs, etc. This subject is currently under review by the Ministry with respect to a definition of roles in mutual assistance, training for municipalities, etc. The Ministry also provides educational packages and videotapes to the public.

The Committee pointed out the use of helicopters in other jurisdictions. The current equipment available for firefighting was discussed briefly and the use of helicopters in British Columbia for fast attacks was discussed. A Member expressed a concern that the heavy use of helicopters in the Northwest and North Central regions could compromise their use elsewhere in Ontario. The Ministry explained that it does request additional equipment on the basis of forecasting and, therefore, equipment shortage has not been a major issue.

Reviews on Major Fires

According to the Provincial Auditor, between the 1984 and 1987 fiscal years, less than 15 per cent of the required Board of Review inquiries were conducted. In the event of major fires, Regional Directors have a policy requirement to appoint a Board of Review to report on fires greater than 500 acres (200 hectares). The report addresses the problems encountered in the strategy adopted and the action plan for implementation. The review with recommendations is submitted to the AFMC Director.

The reviews conducted in 1987 by the Northern Region identified several common issues which could be of assistance to management. There was a lack of trained staff at fire sites, water bombers were generally not available when required and the

regional and provincial allocation of personnel was at times inadequate. The Auditor recommended that analyses similar to those carried out by the Northern Region in 1987 should be considered for all regions. Furthermore, the Aviation and Fire Management Centre should analyze these reports to identify common problems and suggest cost-effective strategies which could then be communicated to all regions.

The Ministry's response to the audit was supportive. It agreed with the Auditor's recommendations made in 1982 with respect to the need for a review of criteria for the selection of fires to ensure sensitivity and practicality; secondly, it suggested that precise terms of reference be established for each review and, finally, that the recommendations be addressed through a set mechanism for acceptance and implementation. A directive was issued in June 1988 to broaden the selection criteria to include the scale of damage, cost and management involvement in addition to size alone. The terms of reference and follow-up on recommendations were also addressed.

The Ministry explained further that problems identified in the fire reports are not uncommon and can be attributed to a series of factors. For example, the shortages of trained staff occur because of other competing fires of a higher priority than those under review. Also, the deployment of limited water bombers is determined to be most critical when communities are being threatened. The fire reviews audited reflect fire overload situations. Nonetheless, the Ministry is supportive of fire reviews as a mechanism to improve effectiveness through valuable information.

The Committee acknowledges that the various regions are audited on an annual basis and that issues are monitored daily. Many of the recommendations of the Ministry's "Provincial Detection Review - 1987" have been implemented and some recommendations are outstanding.

The internal review of the province's forest fire detection program, which included aerial surveillance and public detection, concluded that the system is sound but recommended operational improvements with respect to the following:

- improvement of the framework to measure the system's effectiveness;

- improvement of communications;
- development of a consistent planning guide; and
- improvement in decision support systems (e.g., fire predictions and more random checks).

The Committee therefore recommends that:

2. The recommendations from the 1987 Provincial Detection Review task force should be evaluated to assess any improvements in the fire detection system in the province and those recommendations not yet implemented should be reconsidered by the AFMC. In instances where recommendations were rejected, reasons should be outlined. This information should be submitted to the Provincial Auditor upon completion.

The Committee was concerned with the implementation of the 1988 Board of Review directive on fire reviews and how it is going to be enforced in the review process. The Ministry explained that the new policy was adopted to ensure fire reviews, and to prepare recommendations. Criteria have been developed for these purposes on provincial and regional levels. The standards for the annual fire review are followed through the Committee system, which includes Ministry officials, a municipal representative and industry people. There is also an operational audit system which operates from the centre in Sault Ste. Marie. The operational audit and the committee system were in place before May 1989 and the Ministry will now ensure clearer enforcement. The Ministry is of the opinion that this will result in more reviews.

The Ministry has been responding to these recommended improvements in the internal review. The Deputy Minister stated that the Ministry agrees with the Auditor that reviews can provide valuable information and assistance in improving the effectiveness of firefighting efforts. It will follow through on these reports in the annual review of aviation and fire management activity and in the operational audit.

The Ministry's new policy broadens the criteria used for deciding on a fire review from size alone to include significant damage, cost, management activity or other reasons. The Deputy Minister is of the opinion that this will address the Auditor's concerns.

The Committee noted that the Ministry has implemented its new policy to conduct fire reviews. The members acknowledge the ongoing evaluation processes and internal audit requirements.

The Committee therefore recommends that:

3. The revised Policy and Procedures Manual Directive for the Board of Review on Forest Fires (June, 1988) should be evaluated one year after being implemented, at the end of the 1989 fire season for all regions. Furthermore the major fire reports should be analyzed by the Aviation and Fire Management Centre for the regions to identify common problems and to suggest cost-effective strategies for the regions.
4. The results of these internal studies should be submitted to the Provincial Auditor upon completion with a full explanation of the methodology and results of each review.

Allocation of Fire Crews

The allocation of fire crews was not proportional to the areas burned for the period 1983-1987. In excess of three-quarters of the fires were in two Ministry regions (Northwestern and North Central), but less than 50 percent of the crews were based in these regions.

The current system placed an over reliance on inter-regional crew transfers, which could contribute to increased fire losses as a result of the extra time required to move crews to critical areas. All of the reviews conducted on major fires in the Northern Region reported that there was a lack of manpower resources immediately available at the time. In response to the 1984 memorandum issued by the Assistant Deputy Minister for Northern Ontario some re-deployments of the fire crews were carried out. The Auditor noted in 1988 that the recommended transfer of seven fire crews from Algonquin to the Northwestern and North Central Regions had not been implemented. The Auditor recommended that the allocation of fire crews be reassessed, recognizing that some inter-regional crew movements will always be necessary.

The Committee was interested in the permanent staff and their on- and off-season responsibilities. The Ministry pointed out that the professional firefighters are trained

on an ongoing basis. If they are not involved in fighting forest fires they are placed in related projects whereby they can be recalled quickly.

The Members of the Committee expressed an interest in the success of the new three-person crews and the reduction of total staff. The Ministry officials explained that the AFMC is moving to a more capital-intensive mode in firefighting with detection and fighting equipment, with the smaller crew size and fewer number of people involved in firefighting. The new crew size was designed to maximize flexibility, effectiveness and efficiency. The point was raised that at times, two three-person crews were being dispatched and not a single crew, but the Ministry pointed out that this is not always the case. The smaller crew size offers flexibility, in part to make it possible to move small groups to locations as required in a timely fashion. The Ministry feels that this is a sound utilization of resources.

The Ministry supported the Auditor's recommendations and in 1989 made adjustments in crew size and the number of personnel. The crews were increased from 170 five-person crews to 207 three-person crews and the total staff was reduced from 850 to 621 people. The regional allocation was modified with a major decrease in the Algonquin Region from 155 to 84 employees. The reallocation is an attempt to address the costly movement of crews to critical fire regions. The Deputy Minister stated that the new crew allocation is in a manner consistent with the Auditor's Report. The increase in the number of initial attack crews is also intended to assist the Ministry in reducing response times to a greater number of fires by highly trained crews.

The Committee acknowledges the Auditor's conclusion that the former system placed too much reliance on inter-regional transfers, which could contribute to increased fire losses as a result of the extra time required to deploy crews. The Committee has noted that a policy decision was made to downsize fire crews and that the re-deployment of fire crews have been carried out. While aware of this policy, the Committee accepts that inter-regional crew movements may be necessary.

The Committee therefore recommends that:

5. An evaluation of the cost effectiveness of the three-person fire crews and the re-deployment of fire crews among regions should be assessed in 1990 by the AFMC vis-à-vis the previous system.
6. The allocation of fire crews should be assessed on a regular basis to assure the optimum distribution of staff.

Monitoring of Fire Response Time

The Fire Control Duty Officer is responsible to assess the data on a fire and to determine the required response from the fire attack base. The personnel and equipment requirements are assessed in response to the magnitude of the fire and local circumstances such as wind direction, water source, vegetation, access routes and, of course, proximity to settlements.

The Fire Control Report explains the particulars on the fire, including damaged area, time allotment and fire response time. The Auditor's staff reviewed a selection of the Fire Control Reports in 1987 to compare the adequacy of fire responses with the Ministry's established response time criteria. Under the current system there has been little documentation outlining the reasons for delayed responses to reported fires; although in discussions with fire crew leaders, most cited that fires could be reported at night, presenting accessibility problems, and fires may have started simultaneously. Manpower and equipment resources are therefore limited given the peak demand periods. The AFMC was in the process of reviewing performance management and the reporting system in the 1989 fiscal year to implement improvements.

The Committee supports the Auditor's conclusion that the staff are doing their best to respond appropriately to all fires and the Members are of the opinion that the system at the time of the audit did not provide documented explanations in cases where response

times significantly exceeded Ministry standards. The Auditor recommended that the response times in excess of those expected for a particular fire should be followed up and formally explained through documented evidence. Such a monitoring system could enable recurring problems to be identified and corrected.

The Ministry's response to the audit explained that delays in dispatch occur for a number of reasons which include a large number of fires and equipment overload, low risk fires with few costs or a slower response time, etc. It was confirmed that the Fire Management Control Reports would follow-up and formally explain response times in excess of permitted standards.

The Ministry officials explained at the June 22, 1989 meeting that the Auditor's recommendation to review excessive response times is being addressed and it was confirmed that the Ministry will be implementing new procedures as soon as possible. The Ministry fully supports the need for documented evidence in cases in which guidelines are not met.

The Members support the initiatives to provide documented explanations of excessive delays. The extent to which this concern has been addressed will depend in part on the success of the new Board of Review policy implemented in 1988.

The Committee therefore recommends that:

7. **The AFMC should prepare a specific assessment of response times for fires during the 1989 fire season. This review would evaluate the response times for small as well as large, high profile fires addressed by the Board of Review management planning procedures. This assessment should be forwarded to the Provincial Auditor upon completion.**

On questioning by the Committee on old and new methods of fire detection, the Ministry officials pointed out that the Ministry no longer maintains a fixed fire detection system using towers. Aerial detection has proven to be more effective in combination with the new system which predicts likely fire locations and hazardous areas and can track storms. The Ministry staff follows weather and other key patterns daily to predict potential fires in conjunction with aerial detection. The old tower siting system presented problems due to blind areas between towers.

Fire Prevention Efforts

The Ministry's fire prevention program puts forth the message that human carelessness is the major contributor to forest fires. The Forest Fire Prevention Week each year is aimed at reducing the risks. As pointed out by the Provincial Auditor, a major effort is being made to educate and inform the general public and industry about safe practices. Advertising, public relations and enforcement are being used to create an awareness through printed materials and film as well as the issuing of fire permits.

CONCLUSION

This report outlines the Provincial Auditor's suggested improvements in firefighting for Ontario and the response by the AFMC. Secondly, those areas in need of assessment have been identified.

The Committee appreciates the invitation from the Ministry of Natural Resources to visit selected AFMC facilities in Ontario. The Members intend to avail themselves of this opportunity which would afford the Committee the opportunity to appreciate the advancements made in firefighting in Ontario as well as outstanding issues under review.

The Committee has made several recommendations requiring follow-up statements by the Ministry to the Provincial Auditor.

The Committee therefore recommends that:

8. The information requested in the preceeding recommendations should be submitted to the Provincial Auditor within one year of the release of this report.

LIST OF RECOMMENDATIONS

1. In an effort to enhance the management of forest firefighting, including the "early detection success rate" and the efficiency and effectiveness of the AFMC, the Committee requests that the Ministry of Natural Resources (AFMC) report back to the Provincial Auditor on any existing measurement of forest fire management practices and procedures in use in Canada and in other jurisdictions. This information would be useful in the development of a standard or ratio for comparison of the effectiveness of fire management in Ontario.
2. The recommendations from the 1987 Provincial Detection Review task force should be evaluated to assess any improvements in the fire detection system in the province and those recommendations not yet implemented should be reconsidered by the AFMC. In instances where recommendations were rejected, reasons should be outlined. This information should be submitted to the Provincial Auditor upon completion.
3. The revised Policy and Procedures Manual Directive for the Board of Review on Forest Fires (June, 1988) should be evaluated one year after being implemented, at the end of the 1989 fire season for all regions. Furthermore the major fire reports should be analyzed by the Aviation and Fire Management Centre for the regions to identify common problems and to suggest cost-effective strategies for the regions.
4. The results of these internal studies should be submitted to the Provincial Auditor upon completion with a full explanation of the methodology and results of each review.
5. An evaluation of the cost effectiveness of the three-person fire crews and the re-deployment of fire crews among regions should be assessed in 1990 by the AFMC vis-à-vis the previous system.
6. The allocation of fire crews should be assessed on a regular basis to assure the optimum distribution of staff.
7. The AFMC should prepare a specific assessment of response times for fires during the 1989 fire season. This review would evaluate the response times for small as well as large, high profile fires addressed by the Board of Review management planning procedures. This assessment should be forwarded to the Provincial Auditor upon completion.
8. The information requested in the preceeding recommendations should be submitted to the Provincial Auditor within one year of the release of this report.

APPENDIX A

Standing Committee on Public Accounts Terms of Reference

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 90 (i)

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available;



LEGISLATIVE ASSEMBLY
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STANDING COMMITTEE ON PUBLIC ACCOUNTS

THURSDAY 22 JUNE 1989

COMMITTEE ROOM NO. 151

A G E N D A

9.30 a.m.
in camera

1. Briefing by Research Officer
re: Section 3.11
1988 Annual Report of the
Provincial Auditor

10.00 a.m.
(in public)

2. Re: Section 3.11

From the Ministry of Natural
Resources:

George Tough
Deputy Minister

Lou Lingenfelter
Director
Aviation and Fire Management
Centre

John Queen
Acting Executive Director
Finance and Administration
Group

John Kerr
Director
Financial Resources Branch

11.00 a.m.
(in public)

3. Motion of Mr Pouliot
(see attached "A")

ISBN 0-7729-5882-3

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Gov. P. Wilson



Standing Committee on Public Accounts

Annual Report
1990-1991

2nd Session, 35th Parliament
41 Elizabeth II



Ontario

LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

TORONTO, ONTARIO

M7A 1A2

**The Honourable David Warner, M.P.P.,
Speaker of the Legislative Assembly.**

Sir,

**Your Standing Committee on Public Accounts has the honour to present its Report and
commends it to the House.**

A large, stylized handwritten signature in black ink, appearing to read 'Remo Mancini'.

**Remo Mancini, M.P.P.
Chair**

**Queen's Park
May 1992**



Canadian Cataloguing in Publication Data

Ontario. Legislative Assembly. Standing Committee on Public Accounts.
Annual Report / Standing Committee on Public Accounts - 1991-1992

Continues: Ontario. Legislative Assembly. Standing Committee on Public
Accounts, Report ISSN 0319-9622.

ISSN 1180-4394 = Annual Report - Ontario. Legislative Assembly. Standing
Committee on Public Accounts.

1. Ontario. Legislative Assembly. Standing Committee on Public Accounts--
Periodicals. 2. Legislative auditing--Ontario--Periodicals. 3. Finance, Public--
Ontario--Accounting--Periodicals.

HJ9921.Z9057.1992

354.7130072'32'05

C92-092558-8

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Clerk of the Committee

Ray McLellan
Research Officer

***from 20 December 1990**

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Clerk of the Committee

Ray McLellan
Research Officer

***to 15 April 1991**
****from 15 April 1991**
*****to 20 December 1991**
******from 20 December 1991**

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PREAMBLE

The *1990-1991 Report* documents the activities of the Standing Committee on Public Accounts for the period January 1990 through December 1991. In addition to the interim reports tabled, the Committee's annual report is submitted on a regular basis, although during election years there have been departures from this practice. The Committee of the 34th Parliament ended with the dissolution in July 1990 and the Committee of the 35th Parliament was appointed in November 1990, following the September 1990 provincial election.

The hearing process is made possible through the participation of private individuals and groups, and representatives from the public and private sectors. The Committee would like to take this opportunity to thank the witnesses that appeared before the Committee at Queen's Park and the various organizations that hosted meetings. Also, the Members would like to acknowledge the receipt of the supplementary documentation in response to the Committee's requests. This material has been useful in the Committee's deliberations and in the preparation of recommendations.

The Committee would like to take this opportunity to acknowledge the assistance provided by the Office of the Provincial Auditor, the Office of the Clerk, and the Legislative Research Service in fulfilling its mandate. This Report was prepared by the Legislative Research Service, pursuant to the instructions of the Standing Committee on Public Accounts.

COMMITTEE'S MANDATE AND ROLE

The Standing Committee on Public Accounts is empowered under the Standing Orders of the Legislative Assembly to review and report to the House its observations, opinions and recommendations on the reports of the Provincial Auditor and the *Public Accounts*. These documents are permanently referred to the Committee when tabled in the Legislature. Also, the Committee considers matters referred by a resolution of the Legislative Assembly.

The Public Accounts Committee conducts hearings and reports to the House as part of the accountability process and stewardship of public funds. In this capacity the Committee has addressed such topics as:

- The information published in the *Public Accounts*;
- The collection of and accounting of revenues;
- Controls over expenditures;
- The protection of assets from loss, waste, and misappropriation;
- Competitiveness and economy in the acquisition of goods and services;
- Regard for efficiency in operations;
- The accountability and effectiveness of government programs in achieving objectives;
- The accounting for the Premier's travel expenditures;
- Special audits prepared pursuant to motions of the Standing Committee on Public Accounts;
- Proposed amendments to legislation which addressed legislative accountability, etc.

Audit Review Process

In recent years, the Standing Committee on Public Accounts has introduced new investigative procedures to assist in the review of audit reports prepared by the Provincial Auditor. The Committee's procedures have increased its effectiveness in exercising its mandate and thereby strengthened the accountability cycle, through the following:

- Briefings by the staff of the Legislative Research Service assist the Committee in the evaluation of the Auditor's findings and develop alternative lines of inquiry, prior to each hearing;
- The Committee issues reports periodically throughout the year, on timely matters of immediate importance, in addition to the Committee's *annual report*;
- The Committee may conduct site visits to facilities, as part of an initial investigation, or in conjunction with a follow-up to ensure compliance; and
- The Committee may recommend that another committee of the Legislature conduct an investigation in instances where it is deemed necessary that follow-up is needed to deal with policy issues. This approach helps to ensure that the Committee does not deal with policy issues and that it maintains a focus on value-for-money matters.

As noted in the Committee's *1989 Report*, the opportunity to visit facilities has been helpful in the investigation into audit reports, in conjunction with the hearings held at Queen's Park. Several objectives have been accomplished through this approach, for example:

- The people involved with the program, services, facility etc. audited are afforded the opportunity to discuss the contents of the audit report, and to address related factors which they may feel should be considered by the Committee;
- The Committee is able to communicate its view on the issues identified in the audit report and to point out that in addition to value-for-money concerns, Members have a primary interest in the welfare of the people involved (eg. patients and staff in the substance abuse treatment system);

- The site visits may provide Members with a new perspective and insight into the audit report, which could enable the Committee to formulate recommendations on various issues with government-wide benefits, and
- The visits may identify factors, not addressed in the Auditor's report, that the Members feel require a follow-up report by the Committee or audit by the Provincial Auditor.

In addition to the hearings held at Queen's Park, the Members conducted site visits to substance abuse treatment facilities in Ontario and the United States in 1991. The trips permitted Members the opportunity to discuss the Provincial Auditor's concerns, observations and recommendations on out-of-province OHIP payments with professionals treating Ontario patients at clinics in Minnesota, Illinois, and New Hampshire as well as in Ontario. The visits enabled the Committee to discuss the reasons for pursuing treatment in the U.S. and the benefits of the U.S. treatment system, prior to the Committee visiting Ontario treatment facilities.

This case demonstrated that the complex nature of the issues in the audit reports may require that Members meet with professionals and lay people in the field, in addition to meetings with the ministries and the Provincial Auditor, to discuss the concerns identified. This approach may offer an alternate perspective, permitting the Committee to experience, discuss and assess the Auditor's findings in conjunction with the views of the professionals and clients in the field on a first hand basis. These visits have resulted in recommendations with broad applications, beyond the issues addressed in the original audit reports.

Follow-up hearings and reports may be used to emphasize the importance of selected issues and to assess the benefit of the Committee's initial recommendations in response to the Auditor's conclusions and observations.

Follow-up reporting by the Committee on previous investigations has been helpful in ensuring compliance. The promotion of accountability over the long term, through follow-up has resulted in important innovations and improvements in government.

Office of the Provincial Auditor

The Provincial Auditor attends the Committee meetings and assists the Members in the investigation into audit reports. During the briefing sessions and hearings, the staff of the Office of the Provincial Auditor may be required to comment on such matters as the audit scope, objectives, and their conclusions and recommendations. The Office of the Provincial Auditor assists the Committee in fulfilling its mandate and therefore it has an important role in the hearings process.

The Committee would like to take this opportunity to pay a special tribute to Mr. D.F. Archer, F.C.A., who retired from the post of Provincial Auditor in December 1991 after a decade of service. He joined the Office of the Provincial Auditor in 1971 and was appointed Provincial Auditor in January 1982.

The Members of the Standing Committee on Public Accounts would like to acknowledge Mr. Archer's dedication to public service in his capacity as Provincial Auditor. Through the Provincial Auditor's annual reports and participation in the Committee process, Mr. Archer demonstrated the importance of accountability in government. The support and cooperation offered by Mr. Archer, and the Office of the Provincial Auditor, have contributed immensely to the work of the Committee over the years.

COMMITTEE AGENDA (1990-1991)

Committee Reports

In 1990 and 1991 the Standing Committee on Public Accounts held hearings on 8 audit reports and tabled four Committee reports. The *1990 and 1991 Report* includes a brief overview of the audit reports and the Committee's recommendations from these reports.

The Committee's schedule of hearings for 1990 and 1991 are included as Appendix B and Appendix C respectively.

On-Going Audit Investigation

The Provincial Auditor's report on out-of-province OHIP payments (Ministry of Health s. 3.13, *1990 Annual Report*) was under consideration by the Standing Committee on Public Accounts during the period June - December 1991. The Members were concerned specifically with one aspect of the Auditor's report, the subject of out-of-province payments for substance abuse patients. The Committee conducted hearings at Queen's Park and visited substance abuse treatment facilities in Ontario and the United States. The Committee expects to table its report on this topic in 1992.

Motions and Special Reports

The Committee received two audits during 1990 and 1991, prepared by the Office of the Provincial Auditor, pursuant to motions passed on November 23, 1989 and May 9, 1991. These motions addressed a Ministry of Industry, Trade and Technology contract and expenditures by Deputy Ministers.

The report on the audit of the Ministry of Industry, Trade and Technology's project, entitled "Ontario-Share the Vision," was tabled with Committee on December 6, 1990. The motion was as follows:

Ordered - That the Provincial Auditor immediately conduct an audit of the process used by the *Ministry of Industry, Trade, and Technology* for the production of the book and video entitled "Ontario Share the Vision"; and that the audit terms of reference should specifically address, but not be limited to, the amount paid for these items, whether the *price for these items is competitive* with normal market rates and whether the purchase of these items is in line with the normal Ministry practices for the purchase of such services.

A report was released on November 8, 1991 on the second motion, requiring an audit of Deputy Ministers' expenditures. The motion instructed the Provincial Auditor, as follows:

That the Provincial Auditor immediately conduct an audit of the expenditures of Deputy Ministers and report to the Committee on the guidelines that the Deputy Ministers are required to follow with respect to the use of these expenditures.

The audit will also show the actual amount that each Deputy Minister is granted for the purpose of expenses and will include any suggestions the Provincial Auditor might have which might be implemented to improve the accountability of the use of these expenditures.

The Committee considered these special audits *in camera* and decided not to report on their contents.

Responses to Committee Reports

The Clerk forwards Committee reports to the appropriate ministries and/or agencies on behalf of the Committee once the document is tabled in the House. The responses to the recommendations are distributed to the Members for consideration. The established follow-up procedure on responses to reports requires that Members should raise their concerns in Committee if it is deemed that further action is required. Also, the Office of the Provincial Auditor reviews the status of recommendations with the Office of the Clerk and reports on significant matters in the annual reports of the Office of the Provincial Auditor.

Committee Functions

In recent years the Committee has sent representatives to the annual meetings of the Canadian Council of Public Accounts Committees and the Canadian

Comprehensive Auditing Foundation. Also, the Committee may attend seminars and host delegations as the opportunities arise.

Canadian Council of Public Accounts Committee

The Committee attended the 12th and 13th Annual Meetings of the Canadian Council of Public Accounts Committees in July 1990 at St. John's, Newfoundland and August 1991 at Winnipeg, Manitoba.

The agenda for the 12th Annual Meeting included a review of the document, *Guidelines for Public Accounts Committees in Canada*. The 13th Annual Meeting addressed crown corporation accountability, deficit spending and financial accountability in government. The meetings also included a session with the Conference of Legislative Auditors.

The annual meeting of representatives from public accounts committees in federal, provincial and territorial jurisdictions provides a forum for the discussion of current public accounts issues and concerns across Canada. In addition to elected members, the committee clerks and research staff were in attendance at these meetings.

Canadian Comprehensive Auditing Foundation

Although the Committee has attended the Canadian Comprehensive Auditing Foundation annual meetings in the past, it did not attend in 1990 and 1991.

Symposium on Communicating Audit Information in the Nineties

In May 1990 the Committee sent representatives to the 'Symposium on Community Audit Information in the Nineties' in Ottawa, Ontario, sponsored by the Auditor General of Canada. The Conference theme, "Getting the Message Across" addressed such topics as the oversight/scrutiny role of legislators,

presenting audit findings and the latest cost-effective communication technology. The participants included Canadian and U.S. legislative auditors, legislators and staff. The sessions demonstrated the importance of cost-effective communication of audit information to legislators.

OVERVIEW OF THE COMMITTEE REPORTS (1990-1991)

This section of the Report provides a list of Committee reports, indicating the date and the parliament when they were tabled, for the period 1990-1991. The Committee's reports are summarized indicating the Auditor's objectives and findings and the Committee's recommendations. Interested parties are referred to the complete text of the reports for a comprehensive statement on the Committee's deliberations and conclusions.

34th Parliament (1990)

- *Special Report on Ministry of Housing Contract with Mr. Dino Chiesa* (March 1990)
- *Report No. 1: Human Resources Secretariat Classification System; 1989 Annual Report*, Office of the Provincial Auditor. (June, 1990)
- *Report No. 2: Driver and Vehicle Registration Systems, Ministry of Transportation; 1989 Annual Report*, Office of the Provincial Auditor and Proposed Amendments to the *Audit Act* and the audit of Government Agencies (June 1990).

35th Parliament (1990 and 1991)

- *Report No. 1: Inspection Audit Reports on School Boards and Universities; 1988, 1989, 1990 Annual Reports*, Office of the Provincial Auditor (June 1991).

Overview of the Reports

Special Report on the Ministry of Housing Contract with Mr. Dino Chiesa

The Committee passed the following motion on June 29, 1989 requesting that the Provincial Auditor conduct an audit on the contract with Mr. D. Chiesa.

Immediately conduct an audit of the process used to award a Ministry of Housing consulting contract to Dino Chiesa; and that the audit terms of reference should specifically include, but not be limited to, an evaluation of the competitive acquisition procedure, fair access for vendors of consulting services, treatment of vendors, assignment substantiation and documentation such as Management Board approvals.

The auditor reached the following conclusions in the audit report:

The process followed was within the parameters of the Management Board directives and guidelines regarding the purchasing of consulting services.

An open competition, the preferred competitive selection procedure, was not held for this position. While the decision not to do so was debatable, the competitive procedure that was followed was acceptable under the directives and guidelines. Some deviations from prescribed practice did occur; however, they were given at least tacit Management Board approval.

We were concerned with the manner in which the adopted procedure was conducted. In our opinion, it fell considerably short in one significant respect, namely, demonstrating fair and equitable treatment of all considered candidates.

The Ministry was intent on acquiring the services of Mr. Chiesa as early as the spring of 1988. In its view he was the individual who best combined the qualifications for the new assignment and the willingness to accept the Ministry's terms and

conditions. The Ministry originally proposed hiring Mr. Chiesa on an employment contract.

As a result of advice from the Human Resources Secretariat and other senior officials, in early August 1988 the Ministry decided to engage the required services on a consulting contract rather than on an employment contract basis. However, there was little evidence to suggest any change in its conviction that Mr. Chiesa was the right individual for the job. In our view the process followed, culminating several months later in the award of a consulting contract to Mr. Chiesa, was unlikely to have deterred the Ministry from fulfilling its original intent.

The Committee made the following recommendations on personnel contracts, and hiring guidelines and procedures in relation to the contract with Mr. Dino Chiesa:

- Personnel contracts within the Ontario Civil Service should ensure fair access and equal treatment to applicants under all circumstances. Potential employees should have the benefit of a standardized impartial interview process. Consideration should be given to reviewing provincial employment practices in the future with respect to these guarantees for potential employees. This review should include a consideration of practices used in the acquisition of the services of part-time and contract personnel.
- The Ministry of Housing should review the established hiring guidelines and procedures in an effort to address any existing deficiencies, restricting fair and equal access to potential employees. The Ministry should address the matter of perceived conflicts in hiring; the hiring process should be open in all respects, which may include extensive advertising campaigns and a consideration of candidates with diverse employment experience offering new perspectives.
- The Ministry of Housing should evaluate its hiring procedures from a records maintenance perspective to ensure that all discussions and conversations relevant to a hiring decision are documented. The advertising, candidate interview and selection procedures should be fully documented and available in the event of a dispute and for purposes of an audit.

Report No. 1:
Human Resources Secretariat Classification System

The audit addressed the Secretariat's initiative to provide direction in human resources management. The Auditor's objectives included assessments of whether:

the position classification system used for Management and Bargaining Unit employees was properly maintained.

controls over grievances with service-wide significance were sufficient; and

ministry action plans and results related to the Strategies for Renewal initiatives were adequately evaluated.

The Provincial Auditor reached several conclusions and findings on the administration of position classification, grievance procedures and the Strategies for Renewal initiatives. According to the audit report, ". . . the Secretariat has not performed sufficient maintenance on the classification system." The Auditor concluded with respect to grievance procedures, that ". . . the system lacked overall control of grievances with service-wide significance. There was little opportunity to co-ordinate and assess grievances prior to their presentation to the Board." Finally, under Strategies for Renewal, the Auditor noted that ". . . the Secretariat was adequately monitoring the ministries' performance against program objectives."

The Committee made the following recommendations on the Human Resources Secretariat's 'Classification System':

- The Human Resources Secretariat should submit a progress report to the Standing Committee on Public Accounts within eight months on the proposed new classification system, the rationale for the model selected and the implementation timetable and costs.

- The Human Resources Secretariat should assess the redesign of the executive compensation evaluation system and submit a report by June 1991 to the Standing Committee on Public Accounts if such a report has not been included in the progress report discussed in Recommendation No. 1 [above] of this Report.
- The Human Resources Secretariat should take the initiative to consult with the Ontario Public Service Employee's Union to jointly consider options to the current grievance procedures with the objective of reducing costs while respecting the rights of employees. In considering alternative programs of dispute resolution, the focus should be on reducing the need for arbitration and emphasizing settlement techniques in an institutionalized alternative dispute resolution (ADR) format.
- The Human Resources Secretariat and the Provincial Auditor should discuss the subject of data collection on grievances following the completion of the interministerial task force review and at such time that the Secretariat has assessed whether it can deliver grievance resolution through an alternative dispute resolution vehicle.
- The Human Resources Secretariat should file a progress report in 12 months on the status of the internal audit guidelines, addressing the implementation period and the benefits of the audits completed.

*Report No. 2: Deficiencies Noted in Driver and Vehicle
Registration Systems, Ministry of Transportation and
Report on the Changes Proposed by the Provincial
Auditor on "the Audit of Government Agencies"*

Driver and Vehicle Registration Systems

The audit reviewed the operation of the registration systems and controls over the acquisition and use of electronic data processing (EDP) resources. The Provincial Auditor assessed whether:

the Driver System data was authorized, accurate and complete;

revenue transaction processing and associated controls in the Vehicle Registration System were adequate; and

EDP resources were acquired economically and utilized efficiently.

The Provincial Auditor reached several conclusions based on the findings in the audit of driver system data processing, the vehicle registration system and resources acquisition and utilization.

According to the audit report on driver system data processing, "computer controls and operational procedures for the processing of data in the Driver System were adequate. However, in the processing of particular items we [the Provincial Auditor] noted several system and administrative deficiencies." In the Vehicle Registration System, "controls over revenue transaction processing, licence plates and renewal stickers were satisfactory. However, the recording of insurance information was not required." Finally, in Resource Acquisition and Utilization, the ". . . EDP sources were acquired and used in an economic and efficient manner, and payment controls were adequate. However, there were some notable exceptions . . ."

The Committee made recommendations on the following subjects: the backlog in the Driver Improvement Office; the approval process to obtain a driver's history; exchanging driver information among ministries; access/security of driver information; the uninsured driver issue; the rate structure for motor vehicle permits, and requests for driver vehicle abstracts.

The Committee made the following recommendations on the Driver and Vehicle Registration Systems:

- The Ministry report to the Committee within twelve months on whatever action has been taken to ensure that the former backlog in the Driver Improvement Office does not recur.
- The Ministry should give consideration to requiring an applicant requesting a driver's history to first obtain approval from the driver in question. This should not preclude an investigation in a criminal case to identify a driver.
- The Ministry submit a progress report to the Committee within twelve months on whatever action has been taken to streamline the exchange of information on convictions and infractions between the Ministries of the

Attorney General and Transportation. This report should comment on the action taken on suspensions pursuant to these system modifications.

- The Ministry should investigate and report to the Committee within twelve months on the matter of whether or not U.S. officials have information on Ontario drivers other than on a case-specific basis as would normally be acquired in a police investigation. The report should address computer security controls and all other factors which have compromised the security of information on license plate registrants in the Province of Ontario.
- The Ministry should report to the Committee as soon as possible with the approval of the other participants on the results of the research into efforts to ensure adherence to compulsory automobile insurance. The report should include any data assembled on the magnitude of the problem of uninsured drivers in Ontario.
- The Ministry should address the Committee's concerns in its proposed evaluation of the new motor vehicle permit system with respect to the geographical determination of boundaries for the rate structure and the designation of head office locations of fleet operations. This assessment should not be limited to these matters. The Ministry report should be submitted to the Committee within twelve months.
- The Ministry is requested to report to the Committee on any regional difference on variations in fulfilling requests for driver and vehicle abstracts, and any proposed amendments to the system. The Ministry should report to the Committee on this matter as soon as possible.

The Audit of Government Agencies

The Standing Committee on Public Accounts reviewed the audit of government agencies by the Office of the Provincial Auditor. This subject was discussed initially in December 1988 and at subsequent meetings on June 15, 1989, December 7, 1989, February 20, 1990, and April 26, 1990. The Committee considered two letters on this subject from the Provincial Auditor addressed to the Chair, Standing Committee on Public Accounts, dated April 19, 1989 and November 7, 1989.

According to the Provincial Auditor ". . . the work of the Office [of the Provincial Auditor] is about evenly divided between value-for-money auditing and the more traditional financial auditing. Yet most of the content (80%-90%) of the

[Auditor's] Annual Report is derived from value-for-money auditing activity." The Public Accounts Committee's report noted that ". . . the Auditor would like to decrease the financial auditing activity and to expand the value-for-money auditing coverage". "To some extent this objective can be accomplished within the existing legislation. However, to effect more significant expansion in the value-for-money mandate, changes to the *Audit Act*(1982) would be required."

The provincial Auditor proposed the following recommendations on the audit of government agencies.

- The Provincial Auditor should be relieved of audit responsibilities for certain agencies through contracting-out; economies resulting from contracting-out would be redirected to value-for-money audits.
- The definition of an "inspection audit" should be broadened to permit audits on a value-for-money basis.
- The *Audit Act* should be amended to provide the Office of the Provincial Auditor with discretionary audit access to government agencies audited by private sector auditors. Access should be permitted on a value-for money auditing basis.

The Committee made recommendations on the Management Board *Directives*, financial and value-for-money auditing, tendering procedures for public accounting projects; the audit of government agencies and transfer payment recipients, and the timing of proposed amendments to the *Audit Act*, as follows:

- Management Board's *Directives* should be amended in accordance with the philosophical approach of the Auditor's letters to the Committee on the audit of government agencies. Management Board officials should meet with officials of the Office of the Provincial Auditor to discuss the proposed changes and amendments to the *Directives* should be submitted to the Committee for consideration and comments. Management Board is requested to prepare a progress report for the Committee on this subject within six months. The Committee may decide to call upon the Provincial Auditor and/or Management Board to discuss this matter in the future.
- The Provincial Auditor should decrease the Office's financial auditing activity and expand the value-for-money auditing coverage. The Office should continue to exercise its "oversight" role on financial audits.

- Tendering procedures should be followed to ensure that eligible firms are selected with due regard to the public competitive-tendering process.
- The *Audit Act* should be amended to provide the Provincial Auditor with the discretionary authority to perform value-for-money audits of any government agency and all transfer payment recipients. The term "government agency" should be clarified and defined in comprehensive terms in an amendment to the *Audit Act*. Consideration should be given to the views of the Provincial Auditor in these amendments, particularly the definition of the collectivity of government agencies in the Province which will be subject to value-for-money audits by the Provincial Auditor.
- The proposed amendments in this Report to the *Audit Act* should be drafted and introduced for first reading as soon as possible and preferably in 1990.

*Report No. 1: Inspection Audits' Report on School Boards
and Inspection Audits' Report on Universities:
1988, 1989 and 1990 Annual Reports
of the Provincial Auditor*

Report on School Boards

The Auditor reported on purchases, payroll transactions, budgeting process and related matters. According to the audit reports of the Lakehead Board of Education and the York Region Catholic Separate Board, the Provincial Auditor assessed whether:

- Purchases, including student transportation, were adequately controlled and were made in accordance with Board policies and procedures;
- Payroll transactions were adequately controlled and complied with Board policies;
- The budgeting process was adequate as a control measure over Board expenditures.

In the Lakehead audit report concerns were expressed on the failure to follow policies and procedures, for example, in financial management and control. Some purchasing decisions were not fully documented, however transportation contracts,

complied with Board policies and procedures. Payroll administration exhibited control problems and the budgeting process demonstrated weaknesses, although improvements had been noted following a 1989 audit of the budget process. Also, the Lakehead audit indicated that under-utilized schools had not been addressed adequately.

The York Region Roman Catholic Separate School Board experienced rapid growth in recent years. The Auditor noted that the challenges of such growth on the Board would strain the time available for asset and expenditure management. The controls over purchasing were not adequate, although they were satisfactory for the processing of payroll transactions. Also, payroll savings were not realized for part-time teachers. The budgeting process was satisfactory although the Auditor had concerns. Finally, some Ministry of Education grants were not used in accordance with the terms as specified.

The Committee made the following recommendations on the School Boards' inspection audits:

- The Ministry of Education in consultation with the Provincial Auditor, shall review the factors relating to the subject of local accountability within school boards, particularly the external audit process, with the objective of recommending options to improve accountability.
- The Ministry of Education shall report to the Committee within 12 months on the status of the initiatives to clarify tendering policies and to standardize transportation and enrolment audits on a province-wide basis.
- The *Audit Act* shall be amended to provide the Provincial Auditor with the discretionary authority to perform value-for-money audits of any government agency and all transfer payment recipients . . .
- An audit committee shall be a legal requirement for all school boards as it is a necessary component in the accountability process. These committees should be comprised of members from the general public, in addition to school board trustees.
- Professional firms, such as accountants and lawyers, providing services to school boards, shall be reviewed on a regular basis, at least every five years, although a change of firms may not be necessary. The Ministry of

Education shall pursue this recommendation through legislative amendments.

- The Ministry of Education shall explore options to promote the sharing of school board resources as a cost saving measure. Current resource-sharing practices by some boards should be encouraged on a province-wide basis, on items such as:
 - transportation;
 - information systems;
 - purchasing; and
 - professional development should be encouraged on a province-wide basis.

The Ministry shall prepare a "resource-sharing policy" with appropriate incentives and sanctions to encourage school boards to pursue this approach.

- When the Ministry of Education allocates monies to the Boards of Education on a "designated program basis," specific program objectives shall ensure that funds are spent as intended and stress the need for improving the monitoring of special grants. Accountability would be facilitated if programs were identified in "funding envelopes," rather than allocating Ministry grants in a single undifferentiated payment.
- The current "localized bargaining system" for teachers shall be the subject of a Ministry of Education review. This process has raised concerns among trustees, administrators and the Ministry of Education.

Report on Universities

The Provincial Auditor's scope and objectives for the inspection audits of Trent University, the University of Guelph and the University of Toronto, and the report on enrolment reporting matters at the University of Toronto were to assess the adequacy of the universities' accounting records and related procedures. The audits included an examination of:

- the accuracy of the enrolment data submitted to the Ministry;
- asset management and control systems;
- purchasing and payment practices;

- the adequacy of controls over payroll, operating expenditures, and sabbatical leaves; and,
- general compliance with policies and procedures.

The Trent University inspection audit findings indicated that ". . . the University's accounting records and related procedures were less than satisfactory," according to the Provincial Auditor. Also, problems were identified in enrolment reporting and internal controls over plant assets. The Auditor was satisfied that ". . . payment procedures for goods and services followed sound business practices and that controls over payroll were satisfactory."

The University of Guelph audit identified problems in enrolment reporting and the safeguarding of assets. Purchasing and payment procedures were adhered to, however there were problem areas. Payroll and benefit transactions were controlled, although there were exceptions. Also, it was concluded that controls were not satisfactory for sabbatical leaves.

The Committee investigated the inspection audit and enrolment reporting for the University of Toronto. The enrolment reporting identified concerns with inconsistent funding for arts and science students, and irregularities in the reporting of Commerce students. The inspection audit addressed furniture and equipment inventories, and purchasing and payment practices. The enrolment reporting data for the 1989 fiscal year complied with the guidelines, but controls over assets were not satisfactory. The purchasing policies and procedures were acceptable, however they were not followed consistently. Payment practices were satisfactory.

The Committee's Report made recommendations in the following areas: accountability for transfer payments; enrolment reporting; payroll, purchasing and payment practices; control over furniture and equipment, and restricted funds and targeted programs.

The Committee made the following recommendations on the Universities' inspection audits:

- Amendments to the *Audit Act* shall be introduced in the House, for first reading, by December 31, 1991 to provide the Provincial Auditor with the discretionary authority to perform value-for-money audits of any government agency and all transfer payment recipients. In the case of universities, this audit approach will help to address the management accountability of each university's administration, while at the same time respecting the academic autonomy of these institutions.
- The Ministry of Colleges and Universities, in consultation with the universities, shall develop administrative guidelines for an enhanced management accountability mechanism, based on the principles of economy, efficiency and standards/procedures to measure effectiveness in universities. Through these management guidelines, the Ministry shall establish standards, for example, to assist universities in developing asset accounting records and to acquire supplies, equipment and services based on management principles.
- The Ministry of Colleges and Universities shall report to the Committee within 12 months on initiatives proposed by the universities to clarify the accountability relationship between universities' administrators/boards of governors and the Ministry.
- The Ministry of Colleges and Universities shall analyze the universities' financial statements and as necessary consult with the universities to prepare recommendations to avoid unnecessary deficit problems and the need for special funding.
- The Ministry shall report to the Committee on the changes effective in 1991-92 to address enrolment reporting weaknesses and the new enrolment reporting guidelines for students in Honours or General Arts and Science programs, at the end of the 1992-93 enrolment reporting cycle. These reports shall be submitted to the Committee at the end of the 1991-92 period and at the end of the 1992-93 enrolment reporting period respectively.
- The Ontario Operating Funds Distribution Manual shall be simplified with the objective of enhancing accountability in the allocation of operating grants to Ontario universities.
- Correspondence and agreements between the Ministry and each university shall be properly documented in all instances. The Ministry shall be responsible for follow-up to ensure that universities comply with Ministry guidelines, regulations and procedures.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

The Standing Committee on Public Accounts is established pursuant to the Standing Order 104(j). Its permanent terms of reference, as set out in the Standing Orders, are as follows:

104(j) Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available.

APPENDIX B

Schedule of Hearings, 1990

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

January - December 1990

Monday, 19 February 1990

9.30 a.m. Section 5.4 of the Provincial Auditor's 1997 Annual Report

From the Ministry of Housing:

Glenn Thompson
Deputy Minister

John Gerretsen
Chairman
Ontario Housing Corporation

Tim Casey
Assistant Deputy Minister
Social Housing Wing

Murray Wilson
Executive Director
Housing Field Operations

Byron Hill
Regional Manager
Central Ontario Region

Paula Hanna
Manager
Employee Health and Safety

Tuesday, 20 February 1990

10.00 a.m. Discussion re audit of Government Agencies

Briefing on Sections 3.3 and 3.4 of the Provincial Auditor's 1989 Annual Report

Wednesday, 21 February 1990

10.00 a.m. Section 3.3 of the Provincial Auditor's 1989 Annual Report

From the Ministry of Community and Social Services:

Valerie Gibbons
Deputy Minister

Michele Noble
Assistant Deputy Minister, Operations

Mary Sutherland
Child Care Program Co-ordinator
Program Co-ordination Section

Thursday, 22 February 1990

10.00 a.m. Section 3.4 of the Provincial Auditor's 1989 Annual Report

From the Ministry of Community and Social Services:

Valerie Gibbons
Deputy Minister

Michele Noble
Assistant Deputy Minister, Operations

Sue Herbert
Manager
Program Co-ordination Section

Kevin Morris
Child Care Program Co-ordinator
Program Co-ordination Section

Monday, 26 February 1990

10.00 a.m. Special audit re Ontario Place Corporation

From the Ministry of Tourism and Recreation:

Blair Tully
Deputy Minister

From Ontario Place Corporation:

Clare Copeland
Chairman

Ed Cieszhowski
General Manager

Sally Young
Executive Director
Corporate Management Division

Joel Shapiro
Secretary Treasurer

Tuesday, 27 February 1990

10.00 a.m. Special audit re Ontario Place Corporation

From the Ministry of Tourism and Recreation:

Blair Tully
Deputy Minister

From Ontario Place Corporation:

Clare Copeland
Chairman

Ed Cieszhowski
General Manager

Sally Young
Executive Director
Corporate Management Division

Joel Shapiro
Secretary Treasurer

Monday, 5 March 1990

2.00 p.m. The Committee met in closed session

3.45 p.m. Section 3.10 of the Provincial Auditor's 1989 Annual Report

From the Human Resources Secretariat:

Elaine Todres
Deputy Minister

Jim Thomas
Assistant Deputy Minister
Employee Relations and Compensation Division

Tuesday, 6 March 1990

10.00 a.m. The Committee met in closed session

10.40 a.m. Section 3.2 of the Provincial Auditor's 1989 Annual Report

From the Ministry of the Attorney General:

Richard Chaloner
Deputy Attorney General

Michael Gourley
Assistant Deputy Attorney General
Courts Administration

Julia Bass
General Manager
Programmes and Administration Division

Heather Cooper
Director
Programme Development Branch
Courts Administration

Wednesday, 7 March 1990

9.30 a.m. The Committee met in closed session

10.15 a.m. Section 3.13 of the Provincial Auditor's 1989 Annual Report

From the Ministry of Transportation:

Pat Jacobsen
Deputy Minister

Margaret Kelch
Assistant Deputy Minister
Safety and Regulations

Pamela Bryant
Executive Director
Transportation Regulation Operations Division

From the Ontario Board of Parole:

Sheila P. Henriksen
Chair

Ken Sandhu
Executive Vice-Chairman

2.00 p.m. The Committee met in closed session

Thursday, 8 March 1990

2.00 p.m. Section 3.10 of the Provincial Auditor's 1989 Annual Report

From the Human Resources Secretariat:

Elaine Todres
Deputy Minister

Jim Thomas
Assistant Deputy Minister
Employee Relations and Compensation Division

Leslie Lewis
Director
Strategic Policy Projects Branch

Debbie Oakley
Director
Employee Equity Branch

Thursday, 29 March 1990

9.30 a.m. The Committee met in closed session

10.15 a.m. Section 5.5 of the Provincial Auditor's 1987 Annual Report

From the Ministry of Tourism and Recreation:

Blair Tully
Deputy Minister

Georgè Speal
Chairman
St. Lawrence Parks Commission

John Barrett-Hamilton
Acting General Manager
St. Lawrence Parks Commission

Thursday, 5 April 1990

10.00 a.m. Motion re: Budget

10.20 a.m. The Committee met in closed session

Thursday, 12 April 1990

10.00 a.m. Report of Sub-committee

 Motion re: "Symposium on Communicating Audit Information in the
Nineties" held in Ottawa

 Motion re: "Guidelines for Public Accounts Committees in Canada"

Thursday, 19 April 1990

9.30 a.m. The Committee met in closed session

10.10 a.m. Section 3.14 of the Provincial Auditor's 1989 Annual Report

From the Ministry of Transportation:

Pat Jacobsen
Deputy Minister

Margaret Kelch
Assistant Deputy Minister
Safety and Regulations

Elmer Merkley
Director
Compliance Branch

Kim Devooght
Director
Licensing and Control Branch

Thursday, 26 April 1990

10.00 a.m. The Committee met in closed session

Thursday, 3 May 1990

10.00 a.m. The Committee met in closed session

Thursday, 31 May 1990

10.00 a.m. The Committee met in closed session

Thursday, 7 June 1990

10.00 a.m. The Committee met in closed session

Sunday, 8 July 1990

7.00 p.m. Annual meeting of the Canadian Council of Public Accounts Committees
in St. John's, Newfoundland

Monday, 9 July 1990

9.00 a.m. Annual meeting of the Canadian Council of Public Accounts Committees
in St. John's, Newfoundland

Tuesday, 10 July 1990

9.00 a.m. Annual meeting of the Canadian Council of Public Accounts Committees
in St. John's, Newfoundland

Wednesday, 11 July 1990

9.00 a.m. Annual meeting of the Canadian Council of Public Accounts Committees
in St. John's, Newfoundland

Thursday, 6 December 1990

10.00 a.m. Organization

Orientation Video from the Office of the Provincial Auditor

Discussion of roles of Committee Staff

Discussion of Committee's Budget

Thursday, 13 December 1990

10.00 a.m. Report of Sub-committee

Budget

APPENDIX C

Schedule of Hearings, 1991

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

January - December 1991

Monday, 4 February 1991

2.00 p.m. Section 2.6 of the Provincial Auditor's 1988 Annual Report, Section 2.8 of the Provincial Auditor's 1989 Annual Report, Section 2.8 of the Provincial Auditor's 1990 Report

From the Ministry of Colleges and Universities:

Thomas A. Brzustowski
Former Deputy Minister

Jamie Mackay
Director of University Relations Branch

David Lyon
Executive Co-ordinator
Corporate Planning and Services

Tuesday, 5 February 1991

10.00 a.m. Section 2.6 of the Provincial Auditor's 1988 Annual Report, Section 2.8
and of the Provincial Auditor's 1989 Annual Report, Section 2.8 of the
2.00 p.m. Provincial Auditor's 1990 Report

From the Ministry of Colleges and Universities:

Jamie Mackay
Director of University Relations Branch

David Lyon
Executive Co-ordinator
Corporate Planning and Services

From University of Guelph:

Solette Gelberg
Vice-Chair
Board of Governors

Mark Larratt-Smith
Assistant Deputy Minister
Corporate Planning and Policy Division

Ray Chenier
Assistant Deputy Minister
Learning Services Division

From York Region Roman Catholic Separate School Board:

Joseph Virgilio
Chair

Frank S. Bobesich
Director of Education and
Secretary Treasurer of the Board

John A. Sabo
Divisional Superintendent of Business Affairs

Wednesday, 27 February 1991

10.00 a.m. Section 2.11 of the Provincial Auditor's 1990 Annual Report

From the Lakehead Board of Education:

Margo Remus Joseph
Chair

Jim McCuaig
Director of Education

Robert Allison
Superintendent
Business and Plant

Thursday, 28 February 1991

10.00 a.m. Section 2.11 of the Provincial Auditor's 1990 Annual Report

From the Lakehead Board of Education:

Evelyn Dodds
Trustee
Former Chair, Audit Committee

Thursday, 21 March 1991

10.00 a.m. Discussion of Committee agenda

Thursday, 4 April 1991

10.00 a.m. The Committee met in closed session

Thursday, 11 April 1991

10.00 a.m. The Committee met in closed session

Thursday, 18 April 1991

10.00 a.m. The Committee met in closed session

Thursday, 25 April 1991

10.00 a.m. The Committee met in closed session

Thursday, 2 May 1991

10.00 a.m. Report of Sub-committee

11.00 a.m. The Committee met in closed session

Thursday, 9 May 1991

10.00 a.m. Motion re: Deputy Ministers' expense accounts

Discussion re Committee Budget

11.00 a.m. The Committee met in closed session

Thursday, 16 May 1991

10.00 a.m. The Committee met in closed session

Thursday, 30 May 1991

10.00 a.m. Discussion of Committee Budget

10.15 a.m. The Committee met in closed session

Thursday, 6 June 1991

10.00 a.m. The Committee met in closed session

11.00 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

From the Ministry of Health:

Martin Barkin
Deputy Minister

Dave McNaughton
Assistant Deputy Minister

Bob McMillan
Executive Director

Steve Lurie
Co-ordinator
Mental Health and Addictions

From the Provincial Anti-Drug Secretariat:

Jon Kelly
Director

Thursday, 13 June 1991

10.00 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

From Bellwood Health Services Inc.:

Linda Bell
President

Frank Fuernkranz
Vice-President
Finance and Administration

From Addiction Research Foundation:

Garth Martin
Assistant Director
Research Dissemination Clinical Research & Treatment Institute

Thursday, 20 June 1991

10.00 Section 3.13 of the Provincial Auditor's 1990 Annual Report

From The Donwood Institute:

David Korn
President and Chief Executive Officer

Steven Sharpe
Vice-Chair of the Board of Directors

From the Ministry of Health:

Martin Barkin
Deputy Minister

Bob McMillan
Executive Director

Celia Denov
Executive Director

Cathy Fooks
Special Assistant
Policy

Steve Lurie
Co-ordinator Mental Health

From the Ministry of Correctional Services:

P.W. Humphries
Senior Medical Consultant and Manager
Clinical Services

Thursday, 27 June 1991

10.00 a.m. The Committee met in closed session

10.40 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

George Mammoliti
Parliamentary Assistant to the
Minister Responsible for Provincial Anti-Drug Strategy

From the Ministry Responsible for Provincial Anti-Drug Strategy:

Mary Shantz
Manager
Policy

From the Ministry of Health:

Martin Barkin
Deputy Minister

Dave McNaughton
Assistant Deputy Minister
Health Insurance and Systems

Motion re: the Provincial Auditor review severance and termination packages paid to senior civil servants [director and up] and political staff from September 1990 to the present in the following Ministries and offices: Natural Resources, Government Services, Solicitor General, Premier's Office, Cabinet Office, Treasury and Economics, Financial Institutions, Agriculture and Food, Environment, Attorney General, Industry, Trade and Technology, Municipal Affairs, Management Board, Health

Sunday, 11 August 1991

6.00 p.m. Annual meeting of the Canadian Council of Public Accounts Committees in Winnipeg, Manitoba

Monday, 12 August 1991

9.00 a.m. Annual meeting of the Canadian Council of Public Accounts Committees in Winnipeg, Manitoba

Tuesday, 13 August 1991

9.00 a.m. Annual meeting of the Canadian Council of Public Accounts Committees in Winnipeg, Manitoba

Tuesday, 13 August 1991 - Minniapolis, Minnesota, U.S.A.

9.30 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

The Committee toured Hazeldon

From Hazelden:

Harold Conlow
Vice President of Rehabilitation Services

Susan Engstrom
Information Specialist

Mike Early
Manager of Admissions/Assessment

Judy Gaetz
Director of Nursing

Sally Brandenburg
Licensing and Accreditation Specialist

Tom Orme
Counsellor Trainee

Gary Hestness
Manager of Community Relations

Wednesday, 14 August 1991 - Chicago, Illinois, U.S.A.

1.00 p.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

The Committee toured Parkside Lutheran Hospital

From Parkside Lutheran Hospital:

Merill Kempfert
Executive Director

E. Delroy Stutzman, Jr., M.D.
Medical Director

Jim Costabilo
Marketing Director

Chicago Area (Community Relations)

Martin Doot, M.D.
Vice President
Medical Services, PMS

Kathy Martin, RN
Director of Nursing

William Filstead, Ph.D.
Vice President Research, PMS

Steve Ruohomaki
Director of Clinical Services

Lloyd Westover
Manager
Medical/Dual Diagnosis Unit

Deborah Costabilo
Manager
Eating Disorder

Jan Murphy
Manager
Polydrug Unit

Wayne Rhodes
Co-ordinator
Volunteer Programs

Thursday, 15 August 1991 - Spofford, New Hampshire, U.S.A.

3.30 p.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

The Committee toured Spofford Hall

From Spofford Hall:

William Hartigan
Senior Vice President
Substance Abuse/Psychiatric Division

Tom Murphy
Executive Director

William Hawthorne, M.D.
Corporate Medical Director

Terry McClelland, M.A., C.A.C.
Clinical Director

Phyllis Johnson, R.N., M.S.
Quality Assurance/Utilization Review Director

Pierre Zimmerman, M.S.
Vice President
Northeast Regional Services

Friday, 16 August 1991 - Dublin, New Hampshire, U.S.A.

9.30 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

The Committee toured Beech Hill Hospital Inc.

From Beech Hill Hospital Inc.:

John McPeake, PhD, CAC
Senior Vice President of Clinical Programs

Barbara R. Duckett, RN, MS
Chief Executive Officer

James Potter, MD
Medical Director

Kathy Byrne, RN
Director of Nursing

Louise Sutherland, MA, CAS
Director of Therapeutic Services

Michael McNamee
Director of Beech Hill-Ottawa

Polly Burchard, NR, MBA
Director of Marketing

Thursday, 3 October 1991

10.00 a.m. The Committee discussed the Canadian Council of Public Accounts

Committees conference in Winnipeg, Manitoba

The Committee discussed the trip to the United States to visit drug and alcohol treatment facilities.

Report of Sub-committee

Thursday, 10 October 1991

9.30 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

The Committee toured Bellwood Health Services Inc.

From Bellwood Health Services Inc.:

Bill Livingston
Chairman of the Board

R. Gordon Bell
Honourary Chairman and Senior Consultant

M. Linda Bell
President and Chief Executive Officer

Frank Fuernkranz
Vice President of Finance and Administration

Janice Hambley
Vice President of Health and Clinical Services

Gerry Cooney
Medical Director

Gloria Gaudet
Senior Assessment Counsellor

Marg Flynn
Co-ordinator of Patient Care

Penny Lawson
Co-ordinator of Family Services

Toby Levinson
Co-ordinator of Continuing Health and Therapy Program

Thursday, 24 October 1991

10.00 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

From Addiction Research Foundation:

Brian Rush
Program Director
Drug and Alcohol Registry of Treatment

From Portage Ontario:

Michael Crowley
Director of Development

Parents of two "Young Offenders"

Thursday, 31 October 1991

9.30 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

The Committee toured Donwood Centre

From Donwood Centre:

David Korn
President and Chief Executive Officer

Richard Fralick
Director of Medical Services

Dennis James
Director of Program Operations

Joyce Gordon
Director of Community Services

Thursday, 7 November 1991

10.00 a.m. Motion re: the POLARIS project

Thursday, 21 November 1991

9.00 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

The Committee toured Pedahbun Lodge Incorporated

From Pedahbun Lodge Incorporated:

Clayton Mitchell
President
Board of Directors

Mike Davis
Secretary
Board of Directors

Gordon Loukes
Treasurer
Board of Directors

Bill Lee
Executive Member
Board of Directors

Ivy Chaske
Executive Director

Yvonne Lunham
Executive Director

Thursday, 28 November 1991

10.00 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

The Committee toured The Jean Tweed Treatment Centre

From The Jean Tweed Treatment Centre:

Jean Reay Day
Program Director

Thursday, 5 December 1991

10.00 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

The Committee toured The Renascent Centre

From The Renascent Centre:

John Campbell
President

Les Talbot
General Manager
Renascent Foundation

Bill Wilson
General Manager
Renascent Fellowship

Lucille Toth
Director
Development and Public Relations

Thursday, 12 December 1991

10.00 a.m. Section 3.13 of the Provincial Auditor's 1990 Annual Report

George Mammoliti
Parliamentary Assistant to the
Minister Responsible for Provincial Anti-Drug Strategy

Thursday, 19 December 1991

10.00 a.m. Report of Sub-committee

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Standing Committee on Public Accounts



Report No. 1

2nd Session, 34th Parliament
39 Elizabeth II

2878/11
42 3/4
P 7/1

**STANDING COMMITTEE
ON PUBLIC ACCOUNTS**

REPORT NO. 1

**2nd Session, 34th Parliament
39 Elizabeth II**

STANDING COMMITTEE ON
PUBLIC ACCOUNTS



LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

COMITÉ PERMANENT SUR
LES COMPTES PUBLICS

Queen's Park
June 1990

The Honourable Hugh Edighoffer, M.P.P.,
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour
to present its Report and commends it to the House.

A handwritten signature in dark ink, appearing to read "Ed Philip".

Ed Philip, M.P.P.
Chair

STANDING COMMITTEE ON PUBLIC ACCOUNTS

MEMBERSHIP LIST

ED PHILIP
Chair

PETER ADAMS

BILL BALLINGER

JOSEPH CORDIANO

DON COUSENS

ALVIN CURLING

MIKE HARRIS

LAUREANO LEONE

SHELLEY MARTEL

DIANNE POOLE

GILLES POULIOT

Tannis Manikel
Clerk of the Committee

Ray McLellan
Research Officer

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PREAMBLE

The Provincial Auditor's report on the audit of the personnel classification system of Human Resources Secretariat (HRS), Management Board of the Cabinet was investigated by the Standing Committee on Public Accounts on March 5 and 8, 1990.

Witnesses from the Human Resources Secretariat, Management Board of Cabinet included Dr. Elaine M. Todres, Deputy Minister; Ms Lesley Lewis, Director, Strategic Planning and Projects Branch; Mr. James Thomas, Assistant Deputy Minister, Employee Relations and Compensation Division; and Ms Debbie Oakley, Director, Employment Equity Branch.

The Committee would like to acknowledge receipt of a letter and documentation from the Human Resources Secretariat dated April 5, 1990 in response to the Committee's request. The manual entitled "Auditing Human Resources Management: Methodology and guidelines to assist in auditing human resources management practices in the Ontario Public Services" produced by the Human Resources Secretariat in partnership with the Internal Auditors' and Personnel Councils is of interest to the Members. Also the Secretariat provided recent information on the "Strategies for Renewal" program, the "Labour Relations Audit Guide and SCQ" and results on the Human Resources Management Audit Project.

The Committee is of the opinion that this Report on the Human Resources Secretariat's classification system is of importance to both management in the Ontario Public Service and the Ontario Public Service Employee's Union (OPSEU). The Members have decided therefore to forward a copy of their Report and the Hansard to OPSEU. The Auditor's report and the Committee's hearings concentrated on the Human Resources Secretariat, and due to the fact that the OPSEU membership could possibly be affected, the Standing Committee on Public Accounts would be pleased to receive comments on this Report from the Union.

INTRODUCTION

The Human Resources Secretariat's mandate as corporate advocate for promoting the best practices in human resources management is to provide advice and support to ministries. The Secretariat develops human resources management policies, programs, and initiatives in consultation with ministries, and in support of the business of government. The Secretariat also acts on behalf of the Management Board of Cabinet, the employer, in collective bargaining and employee relations matters.

The Provincial Auditor's report pointed out that in 1986 the Moher report, "Managing Human Resources in the Ontario Public Service," concluded that a new framework for human resources management was required to meet the needs of the public service. In the same year, the Human Resources Secretariat was established with a deputy minister, responsible to the Chairman of Management Board of Cabinet. Policy development and the administration of human resources management was assigned to the Secretariat.

The Provincial Auditor explained in the 1989 Annual Report that most of the responsibilities dealing with the actual administration of human resource policies were delegated to the ministries, with the Secretariat being responsible for monitoring adherence to corporate policies on a government-wide basis. The monitoring function was to be performed in conjunction with a review process and conducted by the internal audit departments of the various ministries.

Auditor's Scope and Objectives

According to the Auditor's report, "the audit focused on the initiative taken by the Secretariat to provide direction through planning, development and monitoring of government-wide policies. The audit objectives included assessments of whether:

- the position classification system used for Management and Bargaining Unit employees was properly maintained;
- control over grievances with service-wide significance was sufficient; and
- ministry action plans and results related to the Strategies for Renewal initiatives were adequately evaluated."

Background on the Human Resources Secretariat

The Human Resources Secretariat was established in 1986 to replace the Civil Service Commission. A new restructured organization was needed to prepare the public service for the future through succession planning, for example. The Secretariat developed a policy orientation and delegated the human resources function to the deputy ministers, establishing their accountability for human resources.

The Secretariat's goals are to advance the government's workforce agenda through leadership and human resource legislation policies and programs. Secondly, HRS is attempting to create the conditions that support greater self-sufficiency in ministries' human resource management through training. The Secretariat will then not be required to provide many of the current central services. Thirdly, there is the need to optimize the provision of centralized human resources services in areas requiring corporate consistency. The Deputy Minister explained the necessary phases:

- to review every process within the Human Resources Secretariat to ensure that it is being done as well as it can be and as efficiently as it might be; and
- in areas requiring corporate consistency the government as employer needs one method for testing for the 26 corporations (ministries).

Finally, there is a need to provide an environment which encourages HRS staff to realize their full potential.

The Strategies for Renewal program ensures accountability of deputy ministers and their human resource departments for the classification system to Management Board. The joint classification committee will be used to achieve corporate consistency. Furthermore a "checks and balances" process will be developed to achieve horizontal equity and fair classifications for comparable positions among ministries.

ADMINISTRATION OF POSITION CLASSIFICATION

On the administration of position classification, the Provincial Auditor concluded as follows:

The Secretariat has not performed sufficient maintenance on the classification system. In particular:

- More than 60 percent of the existing classification standards for the Bargaining Unit were 20 or more years old.
- Grievance Settlement Board decisions contained many references to outdated standards and the classification problems created as a result.
- The use of atypical classifications within the Bargaining Unit also provided evidence of an outdated classification system. Over 20 percent of the employees in one category of the Bargaining Unit were atypically classified.

The Secretariat was not performing any formal coordinating and/or monitoring of classification duties delegated to the ministries, according to the Provincial Auditor.

HRS recognizes that the classification system is obsolete and that there is a need for major changes in order to obtain a meaningful monitoring process. In the areas of classification (post-pay equity) an agreement was reached with the Ontario Public Service Employee's Union and there will be a new staff classification system. HRS will be setting up joint committees to address this objective.

HRS agrees with the Auditor's report that it is not possible to maintain the current system. The bargaining unit, for example, contains approximately 1,100 class series and several hundred occupational groups.

The Secretariat pointed out that the standards are obsolete, affecting approximately 90,000 people in management and the union. As discussed by the Deputy Minister, the new classification system will also have to incorporate such factors as pay equity, which entails a new methodology. Furthermore, the executive classification system, which is under review, requires a total overhaul according to the Secretariat. The classification system standards would be subject to negotiation.

The Committee expressed an interest in the operational costs of the existing system and savings in a new classification system. HRS is attempting to reduce the personnel required for the current system and to shift its efforts to the development of the new system. This process will take into account existing maintenance costs, union involvement, establishing the monitoring process and defining a method to resolve disputes, where possible avoiding arbitration. **Recommendations for a new system must codify activity, ensure that individuals are treated fairly, determine an appropriate number of job classes and satisfy the union and management in a new system that is less labour intensive.**

The Committee recognized the complexity of the current system and the problems which developed from the multiple classification layers. These operational difficulties are further compounded by new demands on the system.

The Committee questioned whether the Secretariat had sufficient resources available to design and develop a new system. HRS pointed out that the new pay equity program is a major reform to consider in developing the structural features of the new system. The inclusion of employment equity in the collective bargaining agreement, the integration of recent reforms in the pay system and the development of a job evaluation system without a gender bias will also be major factors.

The innovations must be discussed by management and the union. The implementation procedures have not been resolved and the fact that there is not an existing system model to consider from another jurisdiction will present a further challenge, requiring original research and development.

The Committee recognizes the complexity of the existing problems and the need for major changes in the classification system to incorporate developments such as employment and pay equity. HRS explained that pay equity was carried out by a central agency, but that employment equity crosses all ministries. Employment equity will be addressed on an ongoing basis within a corporate framework which will address attitudinal and structural barriers. These matters involve the Strategies for Renewal program which requires commitments from all ministries according to the Secretariat. The Committee expressed an interest in the approach to attitudinal changes to support equity in the workplace. HRS explained that it is necessary to

inform managers of cross-cultural communication factors, for example, and the need to permit employees to move into developmental positions to broaden their experience.

The Committee questioned HRS on the state of Ontario's classification system in comparison to other jurisdictions. The federal government's system has problems similar in some respects to those in Ontario and it is generally agreed that new techniques are needed.

HRS will be carrying out an overhaul of the bargaining unit in six to eight months and it is expected that a feasibility study will be completed to outline the steps required in this process, subject to union approval. The Assistant Deputy Minister explained that several matters are being addressed, such as the cost of the new system's dispute resolution methods; third party review of a classification system; roles of management, the union, HRS and the ministries; long-term monitoring and phasing; and the obsolete technical services category. The objective is to develop an "options paper." The Chair summarized the Secretariat's proposal as follows:

You will be able to present . . . a series of possible models for changing the classification system, and, one would assume, an outline of the pros and cons of each of the models. You will have an outline of the problems of implementation and, an outline of the possible options for implementation and, one would assume, an evaluation of those options, or at least the pros and cons of each of the options.

You will have in six (to eight) months a projection of the cost of implementing your plan and you will also have the costs of the inefficiencies in the present plan or of the status quo.

The Committee therefore recommends that:

1. ***The Human Resources Secretariat should submit a progress report to the Standing Committee on Public Accounts within eight months on the proposed new classification system, the rationale for the model selected and the implementation timetable and costs.***

The ministries would be involved in designing the classification system and in the stages of implementation. In addition to the overhaul of the bargaining unit systems discussed at a later point, the Secretariat will be completing the design of the executive

compensation plan (job evaluation system) for executives and managers. The redesigned system will reduce the number of management leadership groups and will assess executives on the basis of strategic responsibilities in human resource management as well as financial management.

HRS explained the necessary lead time required in the redesign of the classification system, for example, the office administration groups were negotiated over five years and the pay equity classification matter involved detailed evaluation with the union. The executive compensation plan will be completed within a year and will address such matters as gender neutrality, pay equity and classification levels.

The Committee therefore recommends that:

2. *The Human Resources Secretariat should assess the redesign of the executive compensation evaluation system and submit a report by June 1991 to the Standing Committee on Public Accounts if such a report has not been included in the progress report discussed in Recommendation No. 1 of this Report.*

GRIEVANCE PROCEDURES

The Provincial Auditor concluded that the system for grievance procedures lacked overall control of cases with service-wide significance. There was little opportunity to coordinate and assess grievances prior to their presentation to the Grievance Settlement Board.

The Secretariat has introduced audit guidelines for all internal auditors which will assist in ensuring that human resource matters will be incorporated and assessed in an evaluation of program efficiency. The Secretariat emphasized the importance of monitoring employment equity and proper hiring practices in the internal audit procedures. The audit guide has been explained to line ministries in the training process with the objective of ensuring the objective classification of data. Monitoring procedures will be used to hold deputy ministers accountable for human resource decisions made within the ministries. With the delegation of the auditing of human resources to the line ministries, the Secretariat's guide will be helpful in ensuring a consistent and thorough monitoring process through an interdependent series of "checks and balances" in addition to the internal audit and the Provincial Auditor's reports. According to the Secretariat, in addition to audit reports, the monitoring

procedures include four further steps. Once a year a management review is held for each ministry which is attended by the appropriate deputy minister, Chairman of Management Board, the Secretary of Management Board and the Deputy Minister of the Human Resources Secretariat. Secondly, the policy initiatives included in the "Strategy for Renewal" document are now addressed formally in the estimates process. Thirdly, the "Labour Relations Audit Guide and SCQ" provides an extensive review of the labour relations framework (collective bargaining, administration of the collective agreement, dispute resolution and labour-relations management). Finally, an interministerial classification committee will be established.

The Secretariat acknowledged the fact that grievance awards are becoming increasingly expensive, due in part to the large number of classification grievances. HRS pointed out that grievances will have to be reduced. An interministerial committee to review grievances has been established. The Secretariat is considering a new grievance office within HRS's compensation division for reasons of cost efficiency and to deal with cases that are precedential in nature with service-wide implications.

As discussed in Committee, grievances are processed by the line ministries through the various human resources branches. The Secretariat's role is advisory or consultative only on the request of a ministry. The Auditor pointed out that a consequence of this decentralized approach is that in grievance cases with a broad application across government, the information is dealt with on an ad hoc basis and not in a standardized manner with a formal government approach or response. The Auditor is concerned that inconsistencies may occur in the way in which grievances are presented and decisions reached. The Deputy Minister responded that a task force will be addressing this issue.

The Assistant Deputy Minister indicated that the task force is looking at three major issues. First, some grievances raise consistency or factual issues and others are of a policy nature which could affect the language of the collective agreement. Secondly, there is the issue of the use of outside counsel, which costs in the order of \$800,000 per year. HRS is considering options to address this cost through in-house counsel. Thirdly, the number of grievances has been increasing in addition to the classification group grievances.

HRS explained to the Members that there are currently 4,600 grievances at the Grievance Settlement Board. Of these, 3,500 are office administration classification grievances. There are 700 fact and interpretive cases and 400 other diverse classification cases. A Member pointed out that outstanding grievances over a protracted period may lead to personnel and morale problems which cannot be measured in monetary terms. The ratio of successful/unsuccessful cases for government is approximately 60/40.

A Member was of the opinion that arbitration should be avoided where possible and that recurring problems should be addressed in the subsequent collective agreement. The Assistant Deputy Minister pointed out that the union takes virtually every case forward to grievance and this has contributed to the volume. The Secretariat would like to reduce the volume, but the ministries ultimately decide on whether to go forward with the grievance and the government assumes the full financial responsibility. A Member pointed out that there is not a deterrent to bring cases to the Ontario Crown Employee Grievance Settlement Board. According to the HRS, the union and management have attempted to reduce the 3,500 classification cases in a "fast-track method" which would leave 1,100 outstanding grievances.

The Committee expressed an interest in the procedural approach followed to resolve grievances before going to the hearings stage. The ultimate decision is up to the grievor and the ministry on the settlement option for a case. The Deputy Minister explained that in cases in which deputies are aware of the precedential nature of a classification grievance, either because of the large numbers, similar job description or likely service-wide implications, they would prefer to have the cases attested at the Board. This approach is costly, and it is not always clear whether or not the argument being made is a legitimate one.

The Committee expressed concern over the number of cases and whether the volume of work could be reduced by attempting to resolve the cases in the early stages. The Members were concerned that there is no coordination of the overall system and that the Secretariat is not acting as a facilitator. The Assistant Deputy Minister questioned the extent to which HRS can actually comply without assuming this role at a senior level. The Committee noted that HRS does not have a system-wide analysis of the factors and circumstances contributing to the problems in the grievance procedures.

The Secretariat responded that it would be necessary to ask what data are going to be collected and the utility and cost-effectiveness of data which do not have a precedential nature.

The Assistant Deputy Minister summarized the Secretariat's position on central versus decentralized control, pointing out that it is the responsibility of each Ministry to decide upon strategy. The Assistant Deputy Minister said he was not sure that the aggregation of data would work in the end. He went on to say that "it is an interesting question, but if in fact each ministry is taking its own position vis-à-vis the way it manages its workforce, you are only going to solve the problems by having ministries keep the statistics that you are talking about at the ministry level and be able to assess at the ministry level whether or not they are properly fighting cases or properly not fighting cases that they ought to. To say . . . it is a 60 percent win or . . . whatever number, or that we lose x percent at stage one, actually is not helpful in terms of solving the problem. What is helpful is knowing that the Ministry of Health, through its deputy, has this track record and is taking this action within the ministry."

The Deputy Minister addressed the data collection issue, and stated that the role of the Secretariat versus the line ministry is at issue. In the HRS' audit guidelines, when an internal audit is done on labour relations under the section on dispute resolution, the deputies ask for data on dispute dispositions, the monitoring of dispute activity and the highlighting of potential areas of concern, requiring management attention. For example, procedures should be in place for the identification, documentation, investigation and research and analysis of a problem throughout the grievance and arbitration process. The concept of central reporting is then not a priority, although HRS is interested in grievances with system-wide implications from the perspective of corporate consistency and reducing the outside counsel costs for factual grievances.

The Committee pursued the issue of the number of outstanding grievance cases. As discussed, there are approximately 4,600 cases which could go to arbitration of which 3,500 are single class action, with approximately five key issues outstanding. The Committee expressed a concern for the number of cases and the need to address the costs. HRS pointed out that it does not have jurisdiction over whether or not a grievance will be filed.

The Committee raised the subject of alternatives to the existing grievance procedures given the associated costs. Alternative dispute resolution options that are less expensive and could be managed effectively could be considered. HRS has considered "expedited arbitration" as an option and will be discussing this approach with the union.

The Committee therefore recommends that:

3. ***The Human Resources Secretariat should take the initiative to consult with the Ontario Public Service Employee's Union to jointly consider options to the current grievance procedures with the objective of reducing costs while respecting the rights of employees. In considering alternative programs of dispute resolution, the focus should be on reducing the need for arbitration and emphasizing settlement techniques in an institutionalized alternative dispute resolution (ADR) format.***

The Provincial Auditor's conclusion on grievance procedures pointed to the lack of control of grievances with service-wide implications. A Member expressed the opinion that HRS may not believe that a grievance coordinating function is part of its mandate. The Deputy Minister explained the Secretariat's role as follows:

to deliver the government's workforce agenda to provide corporate consistency where required, to deliver within our resources the kind of information that the chairman of Management Board requires to deal with the workforce of this size and this complexity.

The Assistant Deputy Ministry stated that HRS does not have the responsibility for record keeping and controls on grievance activities vis-à-vis the ministries.

The Committee therefore recommends that:

4. ***The Human Resources Secretariat and the Provincial Auditor should discuss the subject of data collection on grievances following the completion of the interministerial task force review and at such time that the Secretariat has assessed whether it can deliver grievance resolution through an alternative dispute resolution vehicle.***

The Deputy Minister referred to innovative dispute resolution techniques being used in the area of sexual harassment which permits three options: the current grievance procedure, file a complaint with the Ontario Human Rights Commission or deal with the problem internally within the ministry through an advisor.

The Committee pursued the matter of how to implement changes to the classification system using an alternative vehicle. HRS explained that this system is part of the bargaining process and the job evaluation system is one of the issues to be resolved or bargained with the union in order to address the number of classification grievances.

The fact that the government is financially responsible for 100 percent of the costs of arbitration is another matter that would require extensive negotiation. An agreement has been signed with the Ontario Public Service Employee's Union which will assist with the expeditious processing of grievances.

The Members were supportive of the audit methodology used in the "Labour Relations Audit Guide and SCQ," by the Secretariat. The objective of this approach is as follows:

The labour relations process in the Ontario Public Service should promote the effective delivery of programs and services through a consistent and cohesive approach to collective bargaining, agreement administration, dispute resolution and labour-management relations.

The document in part attempts to ensure that ministries review the grievances and attempt to resolve them in the preliminary stages. The Secretariat discussed the areas audited, the dispute resolution criteria, and the manager/employee review of the grievance and procedures.

The Members were interested in the initial steps taken in the internal audit process and appreciate that it will require time to train staff and for the system to be functioning effectively. Human resource personnel and internal auditors are currently working in a joint effort to implement the new guidelines.

The Committee therefore recommends that:

5. *The Human Resources Secretariat should file a progress report in 12 months on the status of the internal audit guidelines, addressing the implementation period and the benefits of the audits completed.*

In summary, HRS's audit guidelines for dispute resolution address the subject of central monitoring and reporting of grievances. According to the Deputy Minister there are real limitations on what the Secretariat can do on the number of grievances because the process is highly decentralized. It will be attempting to improve the coordination of "important grievances and precedential grievances," but the process will remain decentralized.

STRATEGIES FOR RENEWAL

"The Secretariat was adequately monitoring the ministries' performance against program objectives in the Strategies for Renewal initiative. However, the success of the program depends on the ability of ministries to manage conflicting priorities," according to the Provincial Auditor.

The Secretariat explained that the Strategies for Renewal program objective is in part to ensure that the Ontario Public Service (OPS) has the necessary workforce for the future. The Deputy Minister described the program in terms of why it was developed, its contribution to changing the way in which the Ontario Public Service is managed, how it signals a transformation in relationships between HRS and line ministries, results to date, and how it is continuing to evolve. The Program is described as being innovative in strategic workforce planning. The relationship with the ministries was discussed with reference to the recent HRS publication entitled Strategies for Renewal: Strategic Human Resources Management in the Ontario Public Service 1990-91. According to this document, Strategies for Renewal will be the key vehicle for establishing long-range corporate workforce and workplace strategies. While promoting partnerships and innovative and exemplary ministry initiatives, Strategies for Renewal is designed to support corporate priorities and encourage ministries to develop initiatives which respond to unique issues and opportunities.

The Program initially had three strategic directions: to revitalize the Ontario Public Service to more closely reflect the diversity of the Ontario population; to reshape the Ontario public service to reflect the best management practices and to be responsive to changes in the working environment; and to redeploy and thus provide greater public access to the OPS and stimulate internal mobility by employees. The Secretariat explained that each ministry is required to file an action plan that reflects its particular

needs and ways of doing business. The workforce plan identifies strategic directions at the corporate level and specific corporate commitments for change. It also recognizes that each ministry will not have the same workforce issues as the government as a whole. Therefore, ministries are required to look at their own labour force to identify how they can contribute to the achievement of corporate directions and resolve the specific workforce problems identified in their own ministry.

Strategies for Renewal, as explained by the Secretariat, establishes that all ministries, deputy ministers and managers in the Ontario Public Service must think strategically and proactively about the workforce. The ministries must demonstrate to the Chairman of Management Board that the ministry's management is in conformity with the Board's directives. They are required to submit comprehensive staffing and education training plans and development strategies.

The Secretariat concluded that the Program includes an efficient and effective workforce capable of delivering first-rate programs to the public; an organization that truly values its human resources by investing and reinvesting in its people; an employment leader with a workforce that mirrors the diversity of Ontario; an approach to work and decision-making that maximizes employee involvement and fosters increasing public accountability; and a union-management relationship that promotes partnerships and cooperation with the associations that represent employees while maintaining clear communication and dialogue between employees and the employer.

The Secretariat explained that the timetable for change is ambitious and that within 10 years the senior management level will be representative demographically of the Province. Below this level there are 35 occupational targets reflecting the geographical personnel supply problem, including the disabled for example.

The Provincial Auditor concluded that HRS has adequately monitored the ministries' performance against program objectives and that the quality of information supplied to the Secretariat has improved. A Member expressed an interest in the cooperation of all ministries which is needed for the success of the Strategies for Renewal Program and asked what steps the Secretariat has taken to ensure that ministries comply with new initiatives such as employment equity. According to the Deputy Minister, the government requires a representative executive management cadre for the civil

service. All appointments at the senior level are screened against employment equity goals and timetables. Each Ministry formulates its own approach to achieve the Program targets. Furthermore, staffing policies are reviewed to make sure that they are systematically neutral and that there is no bias, for example in the move toward operationalized employment equity.

ISBN 0-7729-7146-3

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Government
Publications



Standing Committee on Public Accounts



Report No. 2

2nd Session, 34th Parliament
39 Elizabeth II

ISBN 0-7729-7146-3

STANDING COMMITTEE ON
PUBLIC ACCOUNTS



COMITÉ PERMANENT SUR
LES COMPTES PUBLICS

LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

Queen's Park
June 1990

The Honourable Hugh Edighoffer, M.P.P.,
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour
to present its Report and commends it to the House.

A handwritten signature in dark ink, appearing to read "Ed Philip".

Ed Philip, M.P.P.
Chair

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PREAMBLE

The Provincial Auditor's report on the audit of the "Deficiencies Noted in Driver and Vehicle Registration Systems, Ministry of Transportation" was investigated at a hearing held at Queen's Park by the Standing Committee on Public Accounts on March 7, 1990.

Witnesses from the Ministry of Transportation (MTO) included Ms Pat Jacobsen, Deputy Minister; Ms Margaret Kelch, Assistant Deputy Minister, Safety and Regulation; and Ms Pamela J. Bryant, Executive Director, Transportation Regulation Operations.

The Committee would like to acknowledge receipt of two letters from the Office of the Deputy Minister, Ministry of Transportation dated March 30, 1990 to April 5, 1990 in response to the Committee's request for supplementary information. This technical material has been useful in the Committee's deliberations and in the preparation of this final Report.

This report was prepared by the Legislative Research Service, pursuant to the instructions of the Standing Committee on Public Accounts. The Members would like to acknowledge the assistance provided by the Office of the Provincial Auditor, the Committee Clerk, and the Legislative Research Service.

INTRODUCTION

The Ministry of Transportation's responsibilities include driver, vehicle and carrier licensing, driver regulation, compliance enforcement of inter-city buses, for-hire truck transportation vehicle weight, commodity type, vehicle safety and coordination of road safety for the Province. Within the Ministry, the Safety Regulation Office is responsible for "the regulation and licensing of vehicles and drivers, safety standards and the promotion of safety on the highways. It also oversees the government's involvement with the inter-city bus and truck industries, administers the licensing of for-hire transport under federal, and provincial acts, and includes the enforcement of such acts with respect to vehicle weights and sizes and goods. The Assistant Deputy Minister - Safety and Regulation is also responsible for the coordination of all Road Safety activities for the Province," according to the Ministry's descriptive profiles.

The Auditor's report explained that "the Ministry's Transportation Regulation Operations Division is made up of two branches and four offices located in Downsview and Kingston. It provides driver licensing and vehicle registration services through five regional offices and about 300 private issuing offices. There are a number of EDP (Electronic Data Processing) applications in use to assist in the delivery of such services. The Driver System and the Vehicle Registration System are the two major applications. The two systems are integrated and financial data pertaining to vehicles and drivers are processed by a subsystem called the Vehicle Licensing and Control System. Combined, both systems process an average of 400,000 transactions per day.

During the 1989 fiscal year, the Division collected \$509.3 million of revenue and spent a total of \$48.5 million."

Ms P. Jacobsen, the Deputy Minister, made preliminary comments to the Committee to provide the context for discussion. The Program under review has a budget of \$100 million (approximately) and 1,600 staff, who are decentralized. There are 11,000 motor vehicle inspection stations, six million drivers and seven million vehicles in Ontario.

Auditor's Scope and Objectives

According to the Auditor's report, "the audit focused on the operations of the Driver and Vehicle Registration Systems and the management controls over the acquisition and use of EDP resources by the Division.

The Auditor assessed whether:

- The Driver System data was authorized, accurate and complete;
- revenue transaction processing and associated controls in the Vehicle Registration System were adequate; and
- EDP resources were acquired economically and utilized efficiently."

DRIVER SYSTEM DATA PROCESSING

The Auditor reached the following conclusions on the "driver system data processing" procedures:

Computer controls and operational procedures for the processing of data in the Driver System were adequate. However, in the processing of particular items the Auditor noted several system and administrative deficiencies.

- Processing of conviction amendments, National Parole Board pardons and police correspondence were backlogged six months.
- Medical, conviction and suspension order documents were not secured against removal or destruction, nor was unauthorized viewing of medical records prevented.
- Licensed individuals can have more than one driver's licence number.
- Suspended drivers can obtain a new licence through legal name changes.
- The Driver System automatically reinstated suspended drivers upon payment of one fine even though other fines may have been outstanding.

The Auditor's staff pointed out that the problem is not an electronic data processing problem. The main concern in the audit report was with system and administrative deficiencies that could not be planned or were not considered appropriate at the time the systems were developed, according to the Assistant Provincial Auditor.

Ministry's Response on Rebuilding the Driver Administration

The first results of the Ministry's Driver Project on highway safety will be seen in approximately three years, with continuing improvements occurring throughout the remainder of the 1990s, according to the Deputy Minister.

The Ministry explained the modifications as follows:

- The mission of the Driver Program is to ensure safe mobility on Ontario highways. For this purpose the Program is mandated to administer qualification tests to all Ontario drivers, to maintain a comprehensive Register of Ontario driver qualifications and performance, and to administer driver improvements and control programs related to medical conditions, declining abilities to drive, demerit points, and accident experience, among other factors. This work produces very large volumes of transactions and information.
- An extensive and diverse system of agencies and offices has evolved to deliver these activities, including the 67 Ministry exam centres across the Province, a network of 300 private issuers, 300 "recognized authorities" (private and commercial fleet operators qualified to administer road tests for their own drivers) and close association with 600 high schools, 400 driving schools and 450 police forces.
- Central to the administration of this large amount of information, activity, and delivery operations, is the automated information handling contained in the "Driver System."
- The Driver Program is currently engaged in a multi-year effort to improve its administration structure in general, and its information technology in particular, to address program pressures which have accumulated over the past decade, and to enable strategic improvements to safe mobility in the 90's.
- Important issues under review include:
 - losses related to accidents (human and economic);
 - inadequate identification and treatment for unfit drivers;
 - backlogs (long delays for service);
 - needs of insurance industry and regulation;
 - Freedom of Information and Privacy; and
 - ability to deliver services via different channels (e.g., self service channels).

- The strategic plan for improvements spans the 90's. The first major milestone will be the replacement of the computer software for transaction processing. At least two years of work will be required, so this milestone will not be achieved prior to 1992.
- By replacing the software we plan to position the program to allow further evaluation and improvement through the next 10 years. Among the goals for 92/93 implementation are:
 - "real-time" processing, so that services (e.g. licences) can be delivered to clients in minutes instead of weeks;
 - replacing forms with dialogue and electronic records, to speed up processing and reduce administration burdens;
 - machine-readable (electronic) driver card;
 - modernized data-base to:
 - incorporate more driver information;
 - enable analysis and correlations of data, not possible with the old technology and based on this, to better target corrective actions;
 - accomplish better control of privacy, access and information accuracy and integrity;
 - enable economical administration of more flexible licensing systems;
 - high volume electronic exchanges of data with other jurisdictions, the insurance industry and other users;
 - enable delivery of more program functions via private issuers and alternate channels.
- Building on these basic improvements, we anticipate further investments for around 1995, including:
 - integrated information/systems/operations within transportation regulation; and
 - more self-service transactions.
- Later in the decade, we envision building further on these foundations, investigating wider integration of services and operations, and investigating the extension of self service concepts to the use of simulators for driver training and testing.

The Committee noted that this Program is in the developmental stage and requested the outline of the three-year implementation period in the event that the Members decide to recall the Ministry on the details of the Program.

As a preliminary comment, the Ministry explained to the Committee the security measures taken to protect the database. For example, the police, through the Canadian Police Information Centre (CPIC), cannot have access to the full record on a driver.

The Ministry records Criminal Code infractions that are driving-related; such as drinking and driving and leaving the scene of an accident, according to the officials. The Ministry's database operates on a continuous basis and CPIC has access to the database on a piecemeal basis only.

Operation of the Computer System Adequate

The Auditor concluded that, considering the volume of driver licensing and driver control data, the operation of the computer system and related controls were adequate. However, some weaknesses were noted.

Untimely Input in Driver Improvement Office

A six-month backlog of approximately 8,000 documents was noted by the Auditor in the Driver Improvement Office. Action was being taken during the audit to clear the backlog.

According to the Ministry's initial response, "some improvements have been made in the processing time for input documents. Service standards have been developed for driver improvement products and services and are currently being implemented. Discussions are currently underway with Management Board regarding resources required to address these standards. In addition, mechanisms have been put in place to ensure timely input of driver improvement information based on its potential impact on highway safety."

A Member requested clarification on the current status of the six-month backlog. According to the Deputy Minister, with the assistance of Management Board's approval of additional resources on a major internal relocation, the backlogs have been resolved in all of the areas identified in the audit report. The Ministry has been able to address staff shortage problems with additional salary resources. The Executive Director of Transportation Regulation Operations Division explained that the designed program standard for processing regular medical reports is two to three weeks. Also, there is a fast-track stream referred to as "the immediate suspension process" to resolve a case within a few days. The new mechanism has substantially cleared the backlog and was designed to prevent the recurring problems noted by the Auditor.

The Ministry attempts to differentiate between the low and very high-risk drivers in the medical case load. The lower risk drivers with a potential accident factor require a three-month processing period.

The Committee expressed its concern with the possibility of a recurring backlog. The Members are interested in the specific options being considered by the Ministry to avoid such a problem, such as extending the length of the renewals from three to five years.

The Committee, therefore, requests that:

1. **The Ministry report to the Committee within twelve months on whatever action has been taken to ensure that the former backlog in the Driver Improvement Office does not recur.**

Medical, Conviction and Suspension Order Documents not Secure

As discussed in the audit report, during the course of the audit approximately 20,000 such documents awaited processing. They were not secured from unauthorized or accidental removal. As the documents had not yet been recorded, any removal would have gone unnoticed. Furthermore, thousands of documents relating to individual drivers (e.g., medical reports) were not being secured from unauthorized viewing, removal or destruction.

The Ministry's response pointed out that "the Driver Improvement Office is currently moving towards a 'clean desk' approach as part of security initiatives. This includes the acquisition of locked storage cabinets for all work in addition to providing appropriate space for each staff member. The office has acquired shredding bins which do not allow for the removal of documents, have placed 'staff only' signs at the entrances to the office and are currently investigating the feasibility of installing locked doors to prevent unauthorized entry to the office. These initiatives are part of a security plan developed in August, 1988."

In the hearing, the Committee asked whether the driver abstract is public information. The Assistant Deputy Minister explained as follows:

It is on the public record, and that information is information particularly with respect to your driving history which is all public because it has taken place through the public Ontario court system. So convictions that you have obtained for irregular driving behaviour are the basis on which we give demerit points. So that is all part of the public record When you come to the counter and make a request for that information you need to fill out a form and you need to sign that form and you need to give us a reason as to why you want that information.

According to the Transportation Regulation Operations Division in the Ministry, offences under the Highway Traffic Act are a matter of public record and this information is available to the public upon request, covering only the most recent three year period of a driver's history. Under Section 184,1(a) of the Act, the Ministry maintains these files on convictions and other ministries request this information from MTO. Section 184,1(a) on the report of convictions to the Registrar is as follows:

A judge, provincial judge or justice of the peace who makes a conviction for a prescribed offence or an offence under a prescribed Act of the Legislature or the Parliament of Canada or a regulation or order made under such prescribed Act or the clerk of the court in which the conviction is made shall forthwith certify the conviction to the Registrar setting out the name and address of the person convicted, the date the offence was committed, the provision contravened and such other information as is prescribed.

Furthermore, the Ministry explained that the broader issue of freedom of information and protection of personal privacy has been raised with the Information Privacy Commission. These discussions are ongoing and there is not as yet a final resolution in the form of a Ministry policy with respect to what is public and/or personal information. This information may be used in motor vehicle accident cases and it is important to resolve what should or should not be prohibited.

The Committee considered whether an authorization release form should be signed by the driver in question to authorize a "driver history" or "driver career" check prior to releasing information to the public.

The Committee, therefore, recommends that:

2. **The Ministry should give consideration to requiring an applicant requesting a driver's history to first obtain approval from the driver in question. This should not preclude an investigation in a criminal case to identify a driver.**

Multiple Driver Licence Numbers Issued

The Auditor indicated that since September 1987, more than 1,000 instances of individuals with multiple driver licence numbers were detected by the police or by the Ministry.

The Ministry explained that there are "... significant tradeoffs involved in time and cost required for computer-driven contender checking. Business analysis is, however, currently underway for a new driver system, and this requirement will be considered as part of the system redesign."

A Member expressed a concern with the magnitude of this problem. The Ministry stated that their system and the police attempt to monitor fraudulent activities, but that it is impossible to identify the scale of the problem. The new licence with a photograph has helped driver identification and reduced misrepresentation cases. Furthermore, the Ministry requires proper identification with a photo and signature for applicants for a first licence or licence renewals. The preferable pieces of identification are not always available particularly for young adults.

The Committee pursued this matter in a discussion of possible options for cross-checking databases using other pieces of identification. The Ministry reiterated that this concern will be addressed in the new Driver Project and, furthermore, that this would require new automation within the system to which the Ministry is committed. The Assistant Deputy Minister pointed out that the driver's address is the key piece of information needed from the other databases to ensure an effective cross-check in a "contender-checking system."

A Member expressed a concern over the need to identify high risk drivers as a first priority, employing the residence reference check. The Assistant Deputy Minister explained that the Ministry's revision of the driver system is premised on the ability to

be able to look at the entire driver history or driver career, the final goal of the system redesign. The Ministry explained that this is not possible now due to computer and technology limitations, but it will be achieved within three years approximately.

Suspended Drivers May Obtain a New Licence through Legal Name Changes

There was no mechanism for the sharing of legal name change information between the Ministry of Consumer and Commercial Relations and the Ministry of Transportation, according to the Auditor. Furthermore, the Driver System has no way to detect a fraudulent application. The report on the audit included a recommendation that the Ministry examine the feasibility of obtaining legal name change information to make the Driver System less vulnerable to manipulation by suspended drivers.

The Ministry responded that it is currently investigating with the Ministry of Consumer and Commercial Relations the establishment of an interface between the driver and vehicle systems and birth/death registration. Upon completion of this project, the Ministry will investigate the extension of such an interface to name change information.

The Ministry explained further at the hearing, following discussions with the Ministry of Consumer and Commercial Relations, that this deficiency in the system will be addressed. Furthermore, the Ministry is interested in increasing dialogue with individual "problem drivers" to address their specific problems, as explained by the Deputy Minister.

Suspended Drivers Reinstated Even though Fines Outstanding

The Auditor's report pointed out that as of January 31, 1989, there were approximately 260,000 drivers with outstanding fines valued at slightly more than \$16 million. A review of the Driver database and microfilmed documents showed that the Driver System did not process all of an individual's unpaid fines correctly. This system inadequacy reduced the effectiveness of driver control and fine collection procedures.

The Ministry's initial response explained that "an electronic interface was implemented between the Ministry and the Ministry of the Attorney General. This

interface will expedite the processing of suspensions and reinstatements for unpaid fines. A proposed modification planned for 1990 will prevent drivers with multiple unpaid fines from being reinstated until all fines are paid."

The Committee was interested in the number of outstanding fines and the Ministry pointed out that these offenders can have their driving privileges suspended under the Highway Traffic Act. There is a major coordinating effort between the Ministry and the Ministry of the Attorney General to address this matter. The convictions and infractions are recorded through the court system and the Ministry requires that this information be sent to the registrar in the Ministry of Transportation prior to a suspension. Steps are being taken to streamline this process. The Committee is of the opinion that the outstanding fines identified in the audit report should be resolved as soon as possible.

The Committee, therefore, requests that:

3. **The Ministry submit a progress report to the Committee within twelve months on whatever action has been taken to streamline the exchange of information on convictions and infractions between the Ministries of the Attorney General and Transportation. This report should comment on the action taken on suspensions pursuant to these system modifications.**

Vehicle Registration Information

The Committee raised the subjects of the "screening and detection" of shortcomings in the registration, insurance and driver licencing processes. A Member asked about the sharing of the Ministry's database for vehicle registration. According to the witnesses, there is not an exchange of this information, but there are amendments to the Highway Traffic Act to enter into reciprocal agreements on a state-province basis to share data. Licence plate numbers and the information on the registrants is not shared with other jurisdictions and another province or state could not gain access directly. According to the Ministry, a police officer can gain access to a registrant's file if the officer has the plate number and it is done on an individual, case-specific enforcement basis. It is not possible, therefore, to gain access to the Ministry's data bank automatically, because of computer security controls. The Auditor's officials stated that they were satisfied with these security controls to protect the system against unauthorized access. The

Chair concluded the discussion, noting that the Ministry would pursue the matter of whether U.S. officials have unauthorized access to Ministry files on Ontario vehicle drivers.

The Committee, therefore, recommends that:

4. **The Ministry should investigate and report to the Committee within twelve months on the matter of whether or not U.S. officials have information on Ontario drivers other than on a case-specific basis as would normally be acquired in a police investigation. The report should address computer security controls and all other factors which may have compromised the security of information on licence plate registrants in the Province of Ontario.**

VEHICLE REGISTRATION SYSTEM

The report on the "vehicle registration system" by the Provincial Auditor identified the following:

Controls over revenue transaction processing, licence plates and renewal stickers were satisfactory. However, the recording of insurance information was not required.

Revenue Transaction Processing Satisfactory

The Auditor noted that revenue transaction processing had significantly improved since the previous review, and that errors in issuing licence plates and renewal stickers were resolved on a timely basis. NSF cheques and refunds were sufficiently controlled.

The Assistant Provincial Auditor explained that the System has a large application with a high volume of transactions and registrants. It was audited in 1983 and since that time the Auditor's follow-up reporting indicates that the start-up problems in the revenue and transaction processing have been addressed.

Recording of Insurance Information Not Required

As indicated in the auditor's report, discussions held with the Office of the Superintendent of Insurance at the Ministry of Financial Institutions indicated an interest in having the insurance information stored with the registration system. The

Auditor recommended that the Ministries further explore the cost/benefits of storing this information on computer databases.

The Ministry's response to the report stated that "The collection of insurance information is a secondary aspect to the Ministry's mandate, however, the Ministry will initiate discussions with the Ministry of Financial Institutions to explore further the costs/benefits of storing this information on shared computer databases. This will also determine the other ministries' interests and involvement."

According to the Deputy Minister, the Ministry is considering the insurance coverage issue as part of the new driver registration system. The Deputy Minister stated that the Ministry wants to be assured that drivers have insurance coverage. The Deputy Minister suggested the insurance industry should be fully automated to help ensure automatic notification of driver-insurance status to the Ministry.

The Ministry elaborated its position in a written statement subsequent to the hearing on the subject of linking proof of auto insurance with vehicle registration as a means of preventing the operation of uninsured automobiles. According to the Deputy Minister

the Ministry of Transportation is continuing discussions with the Ministry of Financial Institutions and the Ontario Automobile Insurance Board (OAIB) on matters of vehicle registration and automobile insurance. In conjunction with the Insurance Board of Canada, the OAIB is considering the potential of developing an automobile insurance database which may address the matter of the currency of insurance raised by the Committee.

The ministry provided the following background information on the subject:

- In 1930, Ontario introduced the requirement for filing proof of financial responsibility only as a prerequisite for reinstatement of a driver's licence following suspension as a result of a conviction for a Criminal Code of Canada driving offence.
- In 1970, this program was discontinued when it was evident that the process was ineffective for the government and was administratively unwieldy for the insurance industry.

- Currently, proof of insurance is required for obtaining, renewing or transferring automobile registration. Under the Compulsory Automobile Insurance Act, no owner shall operate, or allow to be operated, an uninsured motor vehicle. Potential penalties for violations of this provision include a fine of not less than \$500.00 to a maximum of \$2,500.00, a driver's licence suspension for up to one year and impoundment of the vehicle for up to three months.
- Only one in every three hundred drivers, or approximately 20,000 drivers, is convicted of driving without insurance annually. (1.3% of all driving convictions.)
- The individual whose automobile is damaged through a collision with a motor vehicle operated by an uninsured driver has a number of avenues to obtain restitution, including the following:
 - The driver who has comprehensive coverage can request reimbursement from his/her own insurer (except for the deductible) who would then pursue the uninsured driver;
 - Under the Highway Traffic Act, the driver, as plaintiff, may apply for a court judgement under section 172 of the Highway Traffic Act. Should the court award a judgement against the uninsured driver, the plaintiff could request the Registrar of Motor Vehicles to suspend the driving privileges of the uninsured driver until arrangements for payment have been made. The Registrar reviews and suspends approximately one thousand such drivers each year.
- There is no research evidence to suggest that those driving without automobile insurance have a higher collision potential than other drivers. Inclusion of insurance data to maintain validity of vehicle registration would not necessarily reduce the number of collisions involving these drivers.
- Requiring the capture, maintenance and dissemination of this data through the vehicle registration system would impose a significant resource burden on both the insurers and government, because the integrated data does not exist at this time.
- Preliminary discussions are currently underway between the Ontario Automobile Insurance Board and the Insurance Board of Canada, which is the authorized statistical agent for the Board, with respect to the potential creation of an automobile insurance database for administrative and regulatory purposes. Through the use of such a database, an agency mandated to do so would be able to determine lapses in automobile insurance validity. The Board believes that such a function would fall within their mandate.

Discussions of these matters are continuing between the Ministry of Financial Institutions, the Ontario Automobile Insurance Board and the Ministry of Transportation, with a view toward ensuring the effective adherence to compulsory automobile insurance.

The Ministry explained that insurance is viewed as a police enforcement issue and that the police do not forward information to the Ministry on the number of drivers with invalid insurance. The witnesses pointed out the problems associated with attempting to determine whether or not a driver has insurance. This problem is evident in many

jurisdictions in both Canada and the U.S. The challenge as noted is one of enforcement, according to the Ministry, and the proposed new driver system and new technology will begin to address the issue of vehicles without insurance. The Deputy Minister pointed to the need for automatic notification of the cancellation of vehicle insurance through a computer package with the insurance industry. The Committee concluded that the verification of driver insurance should be strictly enforced, initially at the time of the purchase of a licence plate renewal. This will be addressed through the new driver information identity system which will identify current insurance policies, cancellations of policies, driver convictions, and fines. This system will be implemented over the next three years.

Finally, on the subject of vehicle insurance coverage and the validity of insurance certificates, the Deputy Minister explained that the Ministry is addressing whether or not a legislative or regulatory amendment is required and, secondly, the magnitude of the problem. This matter has two aspects -- the broader enforcement issue, and the current discussion on insurance matters with the Ministry of Financial Institutions as they relate to the driver project.

The Committee encourages the ongoing initiatives by the Ministry of Financial Institutions, the Ontario Automobile Insurance Board, the Ministry of Transportation and the Insurance Board of Canada to address the matter of automobile insurance validity. The Members expressed concern with the apparent lack of data on the magnitude of this problem. There is a need to define the scale of the problem which extends beyond the cases confirmed in convictions, in order to define the parameters and therefore to estimate the relative seriousness. The Committee endorses the ongoing research on this subject.

The Committee, therefore, recommends that:

5. **The Ministry should report to the Committee as soon as possible with the approval of the other participants on the results of the research into efforts to ensure adherence to compulsory automobile insurance. The report should include any data assembled on the magnitude of the problem of uninsured drivers in Ontario.**

RESOURCE ACQUISITION & UTILIZATION

The Auditors conclusions and findings on "resource acquisition and utilization" were as follows:

Generally, EDP resources were acquired and used in an economic and efficient manner, and payment controls were adequate. However, there were some notable exceptions:

- Management Board approval was not obtained for a \$1.2 million system project.
- Software acquired for \$165,000 and a system developed for \$193,000 had not been used.
- Consultants were paid in excess of original contract ceiling amounts.

The Auditor concluded that compliance with applicable regulations, policies and procedures pertaining to the acquisition of EDP hardware, software and human resources was satisfactory. Some exceptions were noted as outlined in the following sections.

Management Board Approval Not Obtained for System Project

The audit report noted that the Single Application Registration System was not approved by Management Board. Furthermore, the project was behind schedule and the costs exceeded the estimates.

The Ministry explained that "the Single Application Vehicle Registration (SAVR) systems project was initiated by the Canadian Council of Motor Transport Assistant Deputy Ministers (CCMTA) and all Canadian jurisdictions were responsible for implementation within certain time frames. This project commenced as a maintenance task associated with the Commercial Vehicle Operator Registration (CVOR) application and was not expected to become a major systems development assignment based on preliminary requirements.

The SAVR system has since been implemented in compliance with the CCMTA agreement and a post implementation review has been scheduled this fiscal year to assess the final scope, benefits and resource requirements for this project. This information will be provided to Management Board and approvals obtained as appropriate for any future projects."

Software Acquired/Developed But Not Used

The systems library control product could not be installed due to Ministry turnover and

inappropriate vendor support. Furthermore, no recovery of the software cost was possible due to the licensing agreement. The work on the management information component was done at a cost of more than \$193,000 over two years. Further work was suspended due to a re-evaluation of priorities.

The Ministry explained that "since the acquisition of a Computer Systems Library Management software project in 1987, the Ministry has experienced continuing problems with the vendor support, decreasing confidence in the product and staff turnover which has contributed to insufficient in-house expertise. Based on this situation, the plan is to utilize a product now currently available at the Ministry of Government Services Computer Centre which addresses our requirement adequately.

Consultant expertise was required to develop the Management Information Component of the new Carrier System and the use of this component will continue to be evaluated in conjunction with other program priorities along with the overall business strategic plan."

Consultants Paid in Excess of Original Contract Ceiling Price

Three of the seven consultants in the Auditor's sample were paid a total of \$482,000 on contracts with original ceiling amounts totalling \$241,000. Subsequent addenda or renewals enabled the consultants to collect far more than any consultant bid in the original tender. Furthermore, the Auditor explained that more rigorous planning would ensure contract completion within the negotiated ceiling price and promote fairer competition among vendors of consulting services.

The Ministry's response was that "a review of the three consultant assignments identified in the Audit by Ministry management has indicated that the proper tendering procedures were followed and subsequent addenda or renewals were substantiated. All process requirements of the Ministry's Consultant Assignment Committee (CAC) were followed. The Ministry's CAC meets weekly in order to ensure appropriate reviews occur for consultant assignments prior to the Deputy Minister's approval and in conjunction with the Management Board Directive. The Ministry has further strengthened the definition and management of consulting assignments in this area through the creation of a new position, Senior Manager, Regulation Systems. One responsibility of this position is to implement an improved project monitoring and reporting system, including consulting assignments."

The Ministry has spent in the order of \$20 million on software for the systems. The Auditor identified specific concerns which the Ministry has addressed, such as violations of contract ceilings. The Ministry has a Consultant Contract Award Committee (CCAC) to review requests for consultant contracts over \$50,000. CCAC also reviews consultant assignments exceeding the ceiling limit, according to the Deputy Minister. Ms M. Kelch, the Assistant Deputy Minister discussed the approval responsibilities within the transportation regulation program. The CCAC reviews and approves proposals, requests for proposals and consultant responses. Over the contract period changes are required at times and in these instances the proposal is not re-issued, but rather the existing contract is adjusted and the original consultant may continue on the project.

The Committee pursued the investment in software which proved to be inefficient for Ministry purposes. According to the ADM, the Ministry's confidence in the particular package deteriorated. Also, due to changes in a particular piece of legislation, more consultant time was required.

The Assistant Provincial Auditor pointed out that the audit report identified the problem of changes to contracts after they had been let, but that the Ministry had adequately explained the reasons for these cases.

SUPPLEMENTARY INFORMATION

The Members raised several issues during the hearing of a supplementary nature to the subjects addressed in the report of the Provincial Auditor. The Ministry's responses to these issues are addressed in this section.

Validation Stickers on Front Plate Rather Than Rear Plate

In Ontario, it is the policy to place validation stickers for passenger vehicles on the rear plate and for commercial vehicles on the front plate. The same policy is used for all commercial vehicles, both straight trucks and tractor trailers as the vehicle registration system differentiates by weight and not by vehicle configuration. The decision to use the front plate for commercial vehicles was based upon ease of identification and to reduce the obscuring of validation stickers resulting from mud and/or vehicle design. The police were involved in the decision at that time and we are not aware of any problems concerning placement of the validation stickers.

Payment of Licence Fees

The Committee was also interested in whether the Ministry was aware of the number of drivers with recreation properties out of the GTA that were using these premises as permanent residences to avoid the higher GTA motor vehicle permit cost. The Members were primarily concerned with systemic problems and less with enforcement issues.

The Committee pursued the matter of the relative effectiveness of the current motor vehicle system and whether it is an equitable system in its design. The Ministry explained that the new system is being assessed in terms of the implications. For example, the designation of a head office location is important for fleet operations.

The Committee, therefore, recommends that:

6. **The Ministry should address the Committee's concerns in its proposed evaluation of the new motor vehicle permit system with respect to the geographical determination of boundaries for the rate structure and the designation of head office locations of fleet operations. This assessment should not be limited to these matters. The Ministry report should be submitted to the Committee within twelve months.**

Use of Odometer Information/Turnaround Times for Driver and Vehicle Abstracts

A Member pointed to the importance of a consumer being able to do a motor vehicle registry search and that this information should be delivered in a timely manner. The history of a car is relevant to potential purchasers and the accuracy of odometer readings should be assured. The Member asked why the delivery of this information could not be incorporated into the Personal Property Security Act and forwarded as a certified copy from a registry office. The Ministry is currently considering ways in which to make used-automobile searches expeditious through the Ministries of Transportation and Consumer and Commercial Relations.

The Committee concluded that the following information would be of value to consumers: an improved integrated system on vehicle history searches; the role and value of odometer readings in the licencing process, with reference to the average time lags in processing, and the ultimate destination of the information and storage.

The Ministry submitted the following response on this matter following the hearing:

Odometer information on vehicle transfers and renewals is collected at the request of the Investigation and Enforcement Branch of MCCR. The information is retained by MTO on microfilm, providing a cost-effective means of retrieval for search purposes. Neither image scanning nor mainframe systems are cost-effective alternatives for these purposes.

The Members requested supplementary information on driver and vehicle abstracts, and the Ministry responded in a memorandum to the Committee as follows:

The average turnaround times for driver and vehicle abstracts are as follows:

- Applications at the Downsview issuing office are usually processed within 24 hours. The requestor can pick up the search the next day after 1:00 p.m. or have it mailed.
- Applications can also be made at any of the 73 Ministry offices, at which time the application and the application fee are sent by courier to Downsview for processing. The turnaround times (from time of submission by requestor to time of response) are three to four weeks. Plans are currently underway to provide over-the-counter service at local offices.
- Applications which are mailed in to the Ministry have a turnaround time of approximately four to six weeks.

During the hearings the Committee expressed an interest in whether there were variations in obtaining these abstracts on a regional basis in Ontario, for example northern versus southern Ontario.

The Committee, therefore, recommends that:

7. **The Ministry is requested to report to the Committee on any regional difference on variations in fulfilling requests for driver and vehicle abstracts, and any proposed amendments to the system. The Ministry should report to the Committee on this matter as soon as possible.**

LIST OF RECOMMENDATIONS

1. The Ministry report to the Committee within twelve months on whatever action has been taken to ensure that the former backlog in the Driver Improvement Office does not recur.
2. The Ministry should give consideration to requiring an applicant requesting a driver's history to first obtain approval from the driver in question. This should not preclude an investigation in a criminal case to identify a driver.
3. The Ministry submit a progress report to the Committee within twelve months on whatever action has been taken to streamline the exchange of information on convictions and infractions between the Ministries of the Attorney General and Transportation. This report should comment on the action taken on suspensions pursuant to these system modifications.
4. The Ministry should investigate and report to the Committee within twelve months on the matter of whether or not U.S. officials have information on Ontario drivers other than on a case-specific basis as would normally be acquired in a police investigation. The report should address computer security controls and all other factors which may have compromised the security of information on licence plate registrants in the Province of Ontario.
5. The Ministry should report to the Committee as soon as possible with the approval of the other participants on the results of the research into efforts to ensure adherence to compulsory automobile insurance. The report should include any data assembled on the magnitude of the problem of uninsured drivers in Ontario.
6. The Ministry should address the Committee's concerns in its proposed evaluation of the new motor vehicle permit system with respect to the geographical determination of boundaries for the rate structure and the designation of head office locations of fleet operations. This assessment should not be limited to these matters. The Ministry report should be submitted to the Committee within twelve months.
7. The Ministry is requested to report to the Committee on any regional difference on variations in fulfilling requests for driver and vehicle abstracts, and any proposed amendments to the system. The Ministry should report to the Committee on this matter as soon as possible.

**REPORT ON THE CHANGES PROPOSED
BY THE PROVINCIAL AUDITOR ON
"THE AUDIT OF GOVERNMENT AGENCIES"**

PREAMBLE

The Standing Committee on Public Accounts considered the "audit of government agencies" by the Office of the Provincial Auditor (the Office/Auditor) initially in December 1988 and subsequently at meetings on June 15, 1989, December 7, 1989, February 20, 1990 and April 26, 1990. The Committee Members considered two letters on this subject from the Provincial Auditor to the Chair, dated April 19, 1989 and November 7, 1989.

This document contains excerpts from the Auditor's letters of April 19, 1989 and November 7, 1989 which are indicated in italics. The Provincial Auditor's conclusions and recommendations are prefaced with the A/C and A/R notations and the Committee's recommendations with C/R.

This report was prepared by the Legislative Research Service, pursuant to the instructions of the Standing Committee on Public Accounts. The Members would like to acknowledge the assistance provided by the Office of the Provincial Auditor, the Committee Clerk, and the Legislative Research Service.

INTRODUCTION

According to the Auditor's letter of April 19, 1989 *the work of the Office [of the Provincial Auditor] is about evenly divided between value-for-money auditing and the more traditional financial auditing. Yet most of the content (80%-90%) of the Annual Report is derived from value-for-money auditing activity.*

Auditor's Objective

The Auditor would like to decrease the financial auditing activity and to expand the value-for-money auditing coverage.

To some extent this objective can be accomplished within the existing legislation. However, to effect more significant expansion in the value-for-money mandate, changes to the Audit Act (1982) would be required.

The Provincial Auditor explained that he is not seeking to eliminate financial audits entirely, but merely to reduce the current volume. The Office has a role in the education of accountancy students and some of these pupils receive training specifically in the area of financial audits through this Office. The Auditor's objective is to reduce the number of financial audits in a gradual manner through a "contracting-out" alternative, incorporating the services of private sector accounting firms.

The Committee has concluded that the "contracting-out" of government agency financial audits is a cost-effective approach to achieve the stated objective and that any resultant savings should be allocated to the "value-for-money" audit responsibilities in the Office of the Provincial Auditor.

Auditor/Agency Discussions

The Auditor has discussed this proposal with some of the agencies located out-of-town such as the Ontario Northland Transportation Commission. The agencies contacted by the Provincial Auditor supported the proposal in principle.

AUDITOR'S MANDATE UNDER EXISTING LEGISLATION

The audit of government agencies constitutes the bulk of the Auditor's financial audit activities. The primary objective of these audits is to express an opinion on the fairness of the agencies' financial statements. The Auditor currently audits approximately 70 agencies on an annual basis. Responsibility for these audits arises in three ways: shareholders or the governing body appoint the Provincial Auditor as auditor; agency legislation stipulates that the audit be performed by the Provincial Auditor or such other auditor as may be designated by the Lieutenant Governor in Council (no such designation has been made); and agency legislation designates the Provincial Auditor as auditor.

The Auditor listed all of these agencies in his letter of April 19, 1989 to the Chair of the Committee (Appendices A, B, C, D and E). The agencies are audited under the following authority at the present time.

- Appendix A Agencies whose shareholders or governing body have appointed the Provincial Auditor as auditor.
- Appendix B Agencies whose legislation stipulates that the audit be performed by the Provincial Auditor or "such other auditor as may be designated by the Lieutenant Governor in Council" (no such designation has been made).
- Appendix C Agencies whose legislation designates the Provincial Auditor as auditor.
- Appendix D Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor.
- Appendix E Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.

MANAGEMENT BOARD'S DIRECTIVES AND GUIDELINES

In the Committee's consideration of the Provincial Auditor's proposal, the Members reviewed relevant sections of the Management Board's Directives and Guidelines in conjunction with the proposed audit philosophy, under discussion in this Report.

Administration of Agencies/Auditing Arrangements (Directives)

External Audit

When an independent audit of an agency is required by legislation, because of incorporation or because the agency has the capacity to hold its own assets and incur its own liabilities, the agency and its financial statements must be subject to an external audit, which should be conducted by either the Provincial Auditor or a private-sector auditor.

Rotation of Private-Sector Auditors

When the external auditor of an agency is not the Provincial Auditor and when the value of the audit contract exceeds \$25,000 per annum, the following conditions must apply:

- The Auditor must be selected through a public competitive tendering process;
- The term of the audit contract must not exceed five years;
- The Auditor is eligible to tender for reappointment for subsequent five-year terms; and
- The tender for the audit must be conducted during the final year of the existing contract.

Appointing External Auditors (Guidelines)

The appointment of external auditors by the board of government agencies must comply with the following:

Government agencies must take into account the existence of the Provincial Auditor when selecting an external auditor. In fact, in many cases the Provincial Auditor is designated as the external auditor in the legislation establishing the agency. The Provincial Auditor should continue to be the independent auditor for those agencies for which he or she currently undertakes the external audit.

When a new agency is being contemplated and it likely will meet some of the requirements for an independent audit, one of the key decisions to be made is whether that audit should be carried out by the Provincial Auditor or a private-sector auditor.

This guideline elaborates, with specific reference to Schedule I, II and III agencies.

Schedule I Agencies

The Provincial Auditor should be designated as the external auditor for any Schedule I agencies requiring an independent audit, since they are funded entirely from the Consolidated Revenue Fund (CRF), are staffed by public servants and adhere to all management and administrative directives approved by the Management Board.

It should be noted that many Schedule I agencies are not required to have a separate audit, it is done as part of the one performed by the Provincial Auditor on the responsible ministry.

Schedule II and III Agencies

The following criteria are suggested with regard to the appointment of external auditors:

- Schedule II and III agencies receiving more than 50 percent of their required revenues from the CRF should be audited by the Provincial Auditor;
- Schedule II agencies generating significant revenues for the CRF should be audited by the Provincial Auditor; and
- Other agencies not receiving funds from the CRF or receiving less than 50 percent of their total revenues from the CRF may have their external audits performed by either the Provincial Auditor or an external auditor.

The Committee supports the Provincial Auditor's proposal to decrease the Office's financial auditing activity and to expand the value-for-money auditing. The Members therefore decided to recommend that the Directives should be amended appropriately to reflect the proposed changes to the Office's mandate.

The Committee, therefore, recommends that:

- C/R-1. Management Board's Directives should be amended in accordance with the philosophical approach of the Auditor's letters to the Committee on the audit of government agencies. Management Board officials should meet with officials of the Office of the Provincial Auditor to discuss the proposed changes and amendments to the Directives should be submitted to the Committee for consideration and comments. Management Board is requested to prepare a progress report for the Committee on this subject within six months. The Committee may decide to call upon the Provincial Auditor and/or Management Board to discuss this matter in the future.**

AUDIT OF AGENCIES IN APPENDICES A, B & C

According to the Auditor public accounting firms could perform the financial audits more economically due to the following:

- *most of these audits are performed in the summer season, which is a relatively slow time for many public accounting firms, therefore audit fees would be very favourable;*
- *audits would be performed by local firms, therefore, travel costs for the out-of-town audits would be significantly reduced; and*
- *unlike public accounting firms that concentrate year round on financial statement audits, the Auditor's staff alternates between value-for-money and financial audits which tends to increase orientation, on the job training and experience costs.*

The Auditor originally proposed that the financial audit of agencies could be reduced by taking one or more of the following actions:

- Option A Requesting the shareholders or governing bodies in Appendix A to appoint another auditor.*
- Option B Requesting the agencies in Appendix B to seek appointment of another auditor by Order in Council.*
- Option C Contracting-out certain of the agencies in Appendix C to public accounting firms. The Auditor would likely start with the out-of-town audits.*

In the first of the above circumstances the Auditor would be relieved of the audit responsibility. In the latter two the Auditor would still retain responsibility for the audit. Under options A & B, the agency would select the auditor and pay the audits costs. Under option C, the Auditor would select the auditor and would pay the audit costs.

In discussion, the Committee had concerns with the loss of "oversight" by the Auditor under option A and with the ability of the agencies to absorb the audit costs under options A & B. The Auditor felt that option C offered a viable solution for agencies in appendices A & B and that this course of action would alleviate the Committee's concerns.

Economies resulting from the "contracting-out" initiative would be redirected to value-for-money audit activities. The Auditor estimates that a 65 percent-35 percent

allocation of audit effort between value-for-money and financial auditing could be achieved within two years.

Auditor's Recommendation

A/R-1 The Auditor's Office could be relieved of much of the resource requirements through the contracting-out of financial audits.

Committee's Recommendations

The Auditor's Annual Report and the Committee's interests are primarily on value-for-money audits. Clarification of the Auditor's mandate on the subject of financial audits would permit the Office of the Provincial Auditor to concentrate on value-for-money audits with an increasing specialization of resources. At the present time, the Auditor performs financial audits on an annual basis for the agencies listed in Appendices A, B and C.

The Committee agrees in principle with "contracting-out" through a public accounting firm. The Members recognize the importance of the "oversight" role of the Provincial Auditor to enhance accountability and therefore concluded that an agency should not select a private sector auditor to conduct its annual financial audit. The Committee feels that this should be the responsibility of the Provincial Auditor, in conjunction with the Auditor's broad "oversight" role. A Member questioned the possible administrative consequences of requiring the Office to select private sector auditors and remit fees. The Provincial Auditor explained that 90 percent of the cost would be for resources. The remaining 10 percent would be used for the administrative costs incurred by the Office in the selection process and in the oversight role, which includes random reviews or checks of audit reports. The Committee emphasized the importance of having the Auditor select the auditors in an effort to ensure impartiality and that acceptable professional standards are maintained. Furthermore, suitably qualified public accounting firms with appropriate professional experience are required for the preparation of financial audits within government principles and guidelines.

The Committee, therefore, recommends that:

C/R-2. The Provincial Auditor should decrease the Office's financial auditing activity and expand the value-for-money auditing coverage. The Office should continue to exercise its "oversight" role on financial audits.

Management Board's Guidelines and Directives should be followed by the Provincial Auditor in the selection of public accounting firms to prepare financial audits for the designated government agencies. For example, Section 6-1-35 of the Management Board's Guidelines establishes several parameters on the subject of the public competitive-tendering process, as follows:

In order to implement the principles of the wise use of public funds and fairness in the marketplace, with respect to private-sector auditors, when an auditor is to be hired and the contract exceeds \$25,000 per annum, the firm should be chosen through a public competitive-tendering process and the contract period should not be more than five years.

The majority of the contracts addressed in the Auditor's proposal would be for contracts of less than \$25,000. The Committee is of the opinion that the Provincial Auditor should implement a "roster-list" approach for the selection of eligible public accounting firms; furthermore, the contract ceiling of \$25,000 should be assessed on a regular basis and, as required, adjusted upward to reflect normal price increases in the market.

The Committee, therefore, recommends that:

- C/R-3. Tendering procedures should be followed to ensure that eligible firms are selected with due regard to the public competitive-tendering process.**

AUDITOR'S MANDATE UNDER AMENDED LEGISLATION

The Auditor currently categorizes inspection audits of transfer payment recipients (hospitals, universities, etc.) as value-for-money audit activity. However, while they are broader in scope than traditional financial audits, they are not as extensive as a regular value-for-money audit.

The Audit Act (Section 1g) currently defines an inspection audit as "an examination of accounting records," a definition which has a decidedly financial connotation. With over 70% of government expenditure in the form of transfer payments, the Auditor

would like to see the definition of an inspection audit broadened to permit auditing on a value-for-money basis (Reference: Attachment 3, the Audit Act).

The Auditor has encountered difficulties with Sections 9(2)-9(4) of the Audit Act. These Sections stipulate the nature of the Auditor's involvement with agencies of the Crown that are audited by other auditors (Appendix D) and with Crown controlled corporations (Appendix E). This involvement, while mandatory, is essentially indirect and is ineffective from the standpoint of meaningful reporting to the Legislature. The Auditor proposes amending the Audit Act to provide the Auditor with discretionary audit access to these bodies, and that such access be permitted on a value-for-money auditing basis.

Auditor's Recommendations

A/R-2 The Auditor would like to see the definition of an "inspection audit" broadened to permit audits on a value-for-money basis.

A/R-3 The Auditor recommends amending the Audit Act to provide the Office of the Provincial Auditor with discretionary audit access to government agencies that are audited by private sector auditors. Access should be permitted on a value-for-money auditing basis.

Committee's Recommendations

The Members considered the reference in the Audit Act (Section 1(g)) to "inspection audit" in the context of the Auditor's recommendation that the definition of this term should be broadened to permit an audit to be conducted on a "value-for-money basis" and therefore not be restricted to an "examination of accounting records." The Committee supports this recommendation in principle and is of the opinion that all Provincial government agencies and all transfer payment recipients should be subject to value-for-money audits by the Office of the Provincial Auditor, in an effort to enhance accountability. The Committee has concluded that the term "government agency" should be clarified and specifically defined in an amendment to the Audit Act. This would redefine the Office's mandate in the value-for-money audits of government agencies.

The Committee, therefore, recommends that:

- C/R-4.** **The Audit Act should be amended to provide the Provincial Auditor with the discretionary authority to perform value-for-money audits of any government agency and all transfer payment recipients. The term 'government agency' should be clarified and defined in comprehensive terms in an amendment to the Audit Act. Consideration should be given to the views of the Provincial Auditor in these amendments, particularly the definition of the collectivity of government agencies in the Province which will be subject to value-for-money audits by the Provincial Auditor.**

The Committee is of the opinion that the recommended changes in the financial audits of government agencies, discussed in this Report, should be addressed as soon as possible. The draft amendments may include substantive and administrative changes to the Audit Act.

- C/R-5.** **The proposed amendments in this Report to the Audit Act should be drafted and introduced for first reading as soon as possible and preferably in 1990.**

LIST OF RECOMMENDATIONS

The Committee, therefore, recommends that:

- C/R-1.** Management Board's Directives should be amended in accordance with the philosophical approach of the Auditor's letters to the Committee on the audit of government agencies. Management Board officials should meet with officials of the Office of the Provincial Auditor to discuss the proposed changes and amendments to the Directives should be submitted to the Committee for consideration and comments. Management Board is requested to prepare a progress report for the Committee on this subject within six months. The Committee may decide to call upon the Provincial Auditor and/or Management Board to discuss this matter in the future.
- C/R-2.** The Provincial Auditor should decrease the Office's financial auditing activity and expand the value-for-money auditing coverage. The Office should continue to exercise its "oversight" role on financial audits.
- C/R-3.** Tendering procedures should be followed to ensure that eligible firms are selected with due regard to the public competitive-tendering process.
- C/R-4.** The Audit Act should be amended to provide the Provincial Auditor with the discretionary authority to perform value-for-money audits of any government agency and all transfer payment recipients. The term 'government agency' should be clarified and defined in comprehensive terms in an amendment to the Audit Act. Consideration should be given to the views of the Provincial Auditor in these amendments, particularly the definition of the collectivity of government agencies in the Province which will be subject to value-for-money audits by the Provincial Auditor.
- C/R-5.** The proposed amendments in this Report to the Audit Act should be drafted and introduced for first reading as soon as possible and preferably in 1990.

**AGENCIES WHOSE SHAREHOLDERS OR GOVERNING
BODY HAVE APPOINTED THE PROVINCIAL AUDITOR
AS AUDITOR**

IDEA Information Technology Fund Inc.
IDEA Innovation Fund Inc.
IDEA Research Investment Fund Inc.
Liquor Licence Board of Ontario
Ontario Industrial Training Institute
Ontario Mortgage Corporation
Ontario Training Corporation
Owen Sound Transportation Company Limited,
The (December 31)
Soldiers' Aid Commission
Star Transfer Limited (December 31)

NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

APPENDIX B

**Agencies Whose Legislation Stipulates that
the Audit be Performed by the
Provincial Auditor or "Such Other Auditor
as may be Designated by the Lieutenant
Governor in Council"**

Source: Letter from the Provincial Auditor to the Chair, Standing Committee on Public Accounts, dated April 19, 1989.

**AGENCIES WHOSE LEGISLATION STIPULATES THAT
THE AUDIT BE PERFORMED BY THE
PROVINCIAL AUDITOR OR "SUCH OTHER AUDITOR
AS MAY BE DESIGNATED BY THE LIEUTENANT
GOVERNOR IN COUNCIL"**

NO SUCH DESIGNATION HAS BEEN MADE

Niagara Parks Commission, The (October 31)
Ontario Cancer Treatment and Research Foundation, The
Ontario Educational Communications Authority, The
Ontario Food Terminal Board
Ontario Junior Farmer Establishment Loan
Corporation, The
Ontario Municipal Improvement Corporation, The
Ontario Racing Commission
Ontario Stock Yards Board (June 30)
Ontario Telephone Development Corporation, The
St. Clair Parkway Commission, The (December 31)
St. Lawrence Park Commission, The

NOTE: . Dates in parentheses indicate fiscal periods ending on a date other than March 31.

APPENDIX C

Agencies Whose Legislation Designates the Provincial Auditor as Auditor

Source: Letter from the Provincial Auditor to the Chair, Standing Committee on Public Accounts, dated April 19, 1989.

AGENCIES WHOSE LEGISLATION DESIGNATES
THE PROVINCIAL AUDITOR AS AUDITOR

Accountant of the Supreme Court of Ontario, The
Agricultural Rehabilitation and Development
Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation
Algonquin Forestry Authority
Centennial Centre of Science and Technology, The
Commission on Election Finances
Crop Insurance Commission of Ontario, The
Eastern Ontario Development Corporation
Egg Fund Board (December 26)
Environmental Compensation Corporation
Farm Income Stabilization Commission of Ontario
Fund for Milk and Cream Producers, The, -
The Ontario Farm Products Marketing Commission
Grain Financial Protection Board
Innovation Ontario Corporation
Legal Aid Fund, Law Society of Upper Canada, The
Liquor Control Board of Ontario
Live Stock Financial Protection Board, The
McMichael Canadian Collection, The
Northern Ontario Development Corporation
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Fees and Expenses under the Election Act, 1984, Office of the
Chief Election Officer
Office of the Information and Privacy Commissioner
Office of the Official Guardian
Office of the Ombudsman
Ontario Agricultural Museum
Ontario Development Corporation
Ontario Film Development Corporation, The
Ontario Heritage Foundation, The
Ontario Housing Corporation (December 31)
Ontario International Corporation
Ontario Lottery Corporation
Ontario Northland Transportation Commission (December 31)
Ontario Place Corporation
Ontario Waste Management Corporation
Pension Commission of Ontario
Potato Financial Protection Board
Processing-Vegetable Financial Protection Board

**AGENCIES WHOSE LEGISLATION DESIGNATES
THE PROVINCIAL AUDITOR AS AUDITOR**

Province of Ontario Council for the Arts
Provincial Judges Benefits Fund
Public Complaints Commissioner
Public Service Superannuation Fund
Public Trustee of the Province of Ontario, The
Rent Review Hearings Board
Superannuation Adjustment Fund
Tobacco Producers' Assistance Fund

NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

APPENDIX D

Agencies Whose Accounts are Audited by Another Auditor under the Direction of the Provincial Auditor

Source: Letter from the Provincial Auditor to the Chair, Standing Committee on Public Accounts, dated April 19, 1989.

**AGENCIES WHOSE ACCOUNTS ARE AUDITED BY
ANOTHER AUDITOR UNDER THE DIRECTION OF
THE PROVINCIAL AUDITOR**

Board of Community Mental Health Clinic, Guelph
Clarke Institute of Psychiatry
Ontario Cancer Institute, The
Ontario Mental Health Foundation
Teachers' Superannuation Fund (December 31)
Toronto Area Transit Operating Authority
Workers' Compensation Board (December 31)

NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

APPENDIX E

**Corporations Whose Accounts are Audited by
an Auditor other than the Provincial Auditor,
with full Access by the Provincial Auditor to
audit Reports, Working Papers and
Other Related Documents**

Source: Letter from the Provincial Auditor to the Chair, Standing Committee on Public Accounts, dated April 19, 1989.

**CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY
AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR,
WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO
AUDIT REPORTS, WORKING PAPERS AND
OTHER RELATED DOCUMENTS**

Board of Funeral Services
Board of Governors of The Ontario Institute for Studies
in Education, The
Board of Ophthalmic Dispensers
Board of Radiological Technicians
Corporation of the Improvement District of Cameron
Corporation of the Improvement District of Dubreuilville
Corporation of the Improvement District of Gauthier
Corporation of the Improvement District of Kingsford
Corporation of the Improvement District of Matachewan
Corporation of the Improvement District of Shedden
Governing Board of Dental Technicians
Governing Board of Denture Therapists
Metropolitan Toronto Convention Centre Corporation
Moosonee Development Area Board
Ontario Board of Examiners Psychology
Ontario Centre for Advanced Manufacturing
Ontario Centre for Automotive Parts Technology
Ontario Centre for Farm Machinery and Food
Processing Technology
Ontario Centre for Microelectronics
Ontario Centre for Resources Machinery Technology
Ontario Cream Producers' Marketing Board
Ontario Energy Corporation
Ontario Historical Studies Series
Ontario Hydro
Ontario Milk Marketing Board, The
Ontario Municipal Employees Retirement Board
Ontario Research Foundation
Ontario Share and Deposit Insurance Corporation
Ontario Trillium Foundation
Royal Ontario Museum, The
Science North
Stadium Corporation of Ontario Limited
Thunder Bay Ski Jumps Limited
Urban Transportation Development Corporation Limited

APPENDIX F

**Terms of Reference,
Standing Committee on Public Accounts**

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 104(j):

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available.



Standing Committee on Public Accounts

Report No. 1



1st Session, 35th Parliament
40 Elizabeth II

**STANDING COMMITTEE
ON PUBLIC ACCOUNTS**

Report No. 1

1st Session, 35th Parliament
40 Elizabeth II

STANDING COMMITTEE ON
PUBLIC ACCOUNTS



Ontario

LEGISLATIVE ASSEMBLY
ASSEMBLÉE LÉGISLATIVE

TORONTO, ONTARIO

M7A 1A2

COMITÉ PERMANENT DES
COMPTES PUBLICS

***The Honourable David Warner, M.P.P.,
Speaker of the Legislative Assembly.***

Sir,

***Your Standing Committee on Public Accounts has the honour to present its Report
No. 1, 1991 and commends it to the House.***

A handwritten signature in dark ink, appearing to read "Bob Callahan". The signature is fluid and cursive, with the first name "Bob" being more prominent than the last name "Callahan".

***Bob Callahan, M.P.P.
Chair***

***Queen's Park
June 1991***

Canadian Cataloguing in Publication Data

Ontario. Legislative Assembly. Standing Committee
on Public Accounts.

Report (1990)

Report

No. 1 (1990)

ISSN 1183-8019

Report - Ontario. Legislative Assembly. Standing
Committee on Public Accounts (1990)

Numbering begins each year with No. 1.

Continues: Interim report, ISSN 1182-7661

1. Ontario Office of the Provincial Auditor. Annual
Report. 1. Finance, Public--Ontario--Accounting--
Periodicals.

HJ9921.Z9057

345.7130072'05

C91-092529-1

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Research Officer

***to April 15, 1991**

****from April 15, 1991**

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INSPECTION AUDITS' REPORT ON THE SCHOOL BOARDS

Lakehead Board of Education

York Region Roman Catholic Separate School Board

Financial Accountability Framework for Grants to School Boards,

1990 Annual Report of the Provincial Auditor

INTRODUCTION

The Provincial Auditor's reports on the inspection audits of the Lakehead Board of Education and the York Region Roman Catholic Separate School Board (Section 2.11 and 2.12, 1990 Annual Report) were investigated at hearings held at Queen's Park by the Standing Committee on Public Accounts on February 25, 26, 27 and 28, 1991.

Witnesses from the Ministry of Education, the Lakehead Board of Education, York Region Roman Catholic Separate School Board and a trustee from the Lakehead Board appeared before the Committee. The witness list comprised the following:

- Ministry of Education
 - Dina Palozzi, Assistant Deputy Minister, Administration Division
 - Mark Larratt-Smith, Assistant Deputy Minister, Corporate Planning and Policy Division
 - Ray Chenier, Assistant Deputy Minister, Learning Services Division
- York Region Roman Catholic Separate School Board
 - Joseph Virgilio, Chair
 - Frank Bobesich, Director of Education
 - John Sabo, Superintendent of Business Affairs
- Lakehead Board of Education
 - Margo Remus Joseph, Chair
 - Jim McCuaig, Director of Education
 - Bob Allison, Superintendent, Business and Plant
 - Evelyn Dodds, Trustee (former Chairman and founder of Audit Committee of the Lakehead Board of Education)

The Committee would like to thank the witnesses and acknowledge receipt of the supplementary documentation in response to the Committee's requests. This material has been useful in the Committee's deliberations and in the preparation of recommendations.

This report was prepared by the Legislative Research Service, pursuant to the instructions of the Standing Committee on Public Accounts. The Members would like to acknowledge the assistance provided by the Office of the Provincial Auditor, the Committee Clerk, and the Legislative Research Service.

OVERVIEW OF WITNESSES' RESPONSES

The Committee has concentrated on the broader issues of the accountability of Boards of Education and systemic problems at the primary and secondary levels. In addition to the reports on specific boards (Sections 2.11 and 2.12), the Committee pursued the findings of the Provincial Auditor in Section 3.6, "Financial Accountability Framework for Grants to School Boards" (1990 Annual Report of the Provincial Auditor), which addressed the topics of accountability of school boards to the Ministry for grant money and the accountability of administrators to the board of trustees.

This Report addresses several main issues, some of which were raised by the Auditor and others which were addressed by the Select Committee on Education in its 1990 Third Report. The recommendations address the school board budget process; external auditors and reporting; program audits; audit committees; value-for-money audits; the role of regional offices in the Ministry of Education; teachers' unfunded retirement gratuities; teachers' contract negotiations; school board resource sharing, and the role of trustees.

Ministry of Education

In response to the 1990 Annual Report of the Provincial Auditor, the Ministry of Education sent a memorandum dated February 15, 1991 from the Acting Assistant Deputy Minister, Learning Services to the directors of education of each Board. The Ministry has planned several actions in response to the following subjects: role of the external auditor; tendering for transportation services; roles, responsibilities and powers of boards and the Ministry; the sharing of board resources and the use of conditional grants. Each of these action plans will be addressed in subsequent sections of this Report.

York Region Roman Catholic Separate School Board (York Region RCSSB)

The Board explained to the Committee that there is an on-going review of the purchasing operation, transportation and financial controls. Follow-up will include a progress report in June 1991 with respect to the implementation of relevant recommendations of the working committees of the York Region Roman Catholic Separate School Board on these issues. In commenting on the challenges associated with rapid urban growth, the Board noted the need to address their \$18 million deficit and to redress the province-wide funding problems between assessment-rich and assessment-poor boards.

Lakehead Board of Education

The Lakehead Board of Education explained that follow-up work would be initiated in several areas. There were problems in policy and procedures in movable assets management which will be addressed in 1991. The financial reporting software is dated and the Board is attempting to initiate a review. Also, the Board believes that the audit process should be broad in scope covering management functions of planning, organization and control. The Lakehead Board has taken the following initiatives:

It is management's intent to provide for a periodic evaluation of internal controls to ensure that:

- the internal controls are operating as intended;
- the controls are still relevant to current operation;
- areas and scope of responsibility are in accord with the position to which they are designated;
- employees are operating within their scope of authority, and that authority has not been shifted without approval;
- operating reports are still relevant;
- all internal controls are cost effective; and
- operating objectives and activities are consistent with the overall Board's objectives.

Ms Evelyn Dodds, Trustee, Lakehead Board of Education

Ms Dodds is a trustee of Lakehead Board of Education and founder of the Lakehead Board of Education Audit Committee. The Standing Committee on Public Accounts included Ms Dodds on the witness list as she was the Chair of the Audit Committee at the time that the audit was conducted and the Members felt that she could offer another perspective. She appeared before the Committee on February 28, 1991. The witness tabled two documents with the Committee: a report to the Chair and Members of the Lakehead Board of Education, dated September 1990 entitled, "Response to the Report of the Provincial Auditor" by six trustees and a September 1989 document entitled "Brief Presented to the Select Committee on Education Funding."

The witness raised several concerns: the lack of control over spending in the educational system; the need for clarification in legislation with respect to the roles, duties and powers of trustees and supervisory officers of boards; access to information for trustees; documentation on teacher absenteeism; asset losses; professional development and expense account reports; the need to address the retirement gratuity debt; the expansion of the terms of reference of the annual financial statement audit; the need to address the transfer of funds within a budget without prior approval; the need to establish audit committees; the representation of administration at audit committee meetings; and the need for regular, random provincial audits of school boards on a value for money basis. Ms Dodds felt that the verification of expenditures by an external auditor and audit committees would enhance the role of trustees. Finally, the witness felt that the board's external auditor should be an extension of the Office of the Provincial Auditor.

Ms Dodds recommended that the Ministry institute a program of random inspection audits of boards to verify compliance with budget decisions. It was suggested that this could involve the Office of the Provincial Auditor, the internal auditor and/or private accounting firms. Ms Dodds feels that the audit committee should be able to meet with the external auditor. Finally, she is concerned about the budget approvals process for capital projects which has in some cases followed the initiation of a project, after the fact.

It was pointed out to Ms Dodds that some of the concerns were beyond the Committee's mandate, whereas others were relevant to the audits under review.

The Committee forwarded a copy of Ms Dodds' testimony to the Lakehead Board of Education to extend the opportunity to the Board to respond to her comments. The Board responded to the Committee in a letter dated May 22, 1991 from the Chair, Lakehead Board of Trustees. The letter is available through the Office of the Committee Clerk (Exhibit # 1/03/014).

BUDGET PROCESS

Auditor's Conclusions

The Auditor made the following comments on the budget process.

Lakehead Board of Education

Most aspects of financial management and control examined [by the Auditor] were either adequate or would be found adequate once planned improvements were fully implemented. Many of [the auditors] concerns related to a failure to follow established policies and procedures.

The 1988 budgeting process revealed some weaknesses. Specifically:

- there were an excessive number of budget transfers and insufficient evidence that all transfers were properly approved.
- procedures were inadequate to ensure that one-time budget infusions were identified and excluded from subsequent budgets.

However, [the Auditor] noted a significant reduction in budget transfers in 1989 and significant improvements in the budgetary process, including a detailed budget manual.

York Region RCSSB

The budgeting process was satisfactory. However:

- Setting of the local taxation rate was more dependent on the rate set by the Region's Public School Board than on the budgeting process.

- The Board continues to budget for a deficit, which is illegal under the Education Act.

Some Ministry grants were not spent according to the terms approved.

According to York Region RCSSB, there is pressure on separate school boards to minimize any tax rate differential with the public boards in order to retain ratepayers and assessment funds. The budget deficit will be addressed through a repayment plan which is dependent on improving the funding situation, redressing the assessment problems (funding models) and achieving equity on the student education cost. The debt is to be addressed over the next five years, but the Board stressed the need for reform measures.

The Lakehead Board's Business and Plant Departments were reorganized in 1987, and at the time the budget process was weak. Improvements were made during 1989-1991 and work is ongoing to strengthen budget variance and transfer approval methods. Planning and budgeting improvements are a priority. One-time infusions have always been identified in budget documentation. The topic of one-time budgeting items was addressed by Ms Dodds. She explained that she felt the necessity to distinguish between capital operating items to enable the board to account for cost increases by areas and by student. She pointed out that problems existed when "one time" grants for special purposes, for example, were included in the base for the next year without classification. A budget variance policy was developed by the audit committee and it has now been approved, but the board is still addressing cases of budget variance after the fact.

FINANCIAL ACCOUNTABILITY TO THE MINISTRY

The Ministry agreed that improving the financial accountability of boards is a key goal:

the Provincial Auditor has, over a period of years, moved into the area of transfer payments in a much more proactive way, and that is useful to us because it provides a very high profile signal to school boards about the accountability that they owe the province, and it also enhances the kinds of directions which were . . . submitted to the Management Board - about how we want to improve the level of auditing and

accountability that they owe the province, and it also enhances the kinds of directions around the specific things which are the key elements in our grants. Things like enrolment; things like the transportation activities and some of the more specific areas where the Ministry requires either an output or both a level of expenditure and an output as part of the money that it gives to school boards.

The Ministry of Education's statement before the Committee focussed on accountability and the related topics of educational funding, the Ministry's relationship with local school boards, program and financial accountability, the Ministry's financial verification process and the role of the regional offices in the overall process. The audit reports addressed compliance with Ministry policies and procedures for grant money.

The Ministry outlined the current funding formula which has resulted in ceilings of approximately \$3,800 for elementary and \$4,700 for secondary pupils:

in terms of dealing with that up-to-ceiling amount, the Ministry ensures that the GLG (general legislative grants) that there is a common mill rate which attempts to equalize the burden across all boards up to that level and that is achieved by first of all getting the assessment data about the wealth of the local tax base from the Ministry of Revenue and then doing an equalization, which again is based on a factor which we received from the Ministry of Revenue which attempts to roughly equalize the burden so that a house of a certain size and scale in one community is being treated similar to the same house in another community.

Even though under the assessment rules themselves there is not that full provincial level playing field, we impute it, if you like, for the purposes of setting up this standard mill rate and with the money that is allocated for the GLG each year, that money plus that standard local mill rate will provide boards, all boards in the province, with the basic amount per pupil, the ceiling that we were talking about earlier, \$3,500, as I say, in the case of the elementary pupil in 1990. And that means that the local taxpayer is paying an equivalent amount whether that local taxpayer is in Kent County or in Toronto or in the north.

GLGs for school boards are comprised of block equalization grants, which are basic unconditional per pupil grants and board-specific grants. These comprise the basic level of service funding. "The actual grant the board receives . . . is the difference between the recognized required level of funding, based on the number of pupils, and the amount a school board can raise from its local taxation base," according to the Ministry. The board also receives funding for specific purposes such as class size reduction. For 1991 the Ministry has introduced changes to make the funding model more understandable.

The Ministry explained to the Committee that "two principles underlie the granting of provincial funds to school boards: all school boards in Ontario must have equitable financial resources to provide a base level of education programs and services, and all boards must make the same tax effort to raise the local share of the costs of providing this base level of education."

The Ministry's contributions to school boards varies between municipalities, depending on the local tax base. The operating and capital grants, and contributions to the pension fund account for approximately 45 percent of the total operating cost of primary and secondary education. The funding model is under study according to the Ministry.

The Committee addressed the question of how "equitable financial resources" can be ensured to provide a basic level of education. This concern was prompted due to the deficit situation of some boards. The Ministry explained that the equity principle applies to grants within the ceiling, but that this does not necessarily take into account the full range of expenditures increases faced by boards, and that ability to spend above the ceiling depends on the tax base of the particular board.

The Ministry explained that school boards are responsible, within reasonable limits, to manage their resources to avoid a deficit situation. Approximately 26 boards in the past year had difficulties with respect to a balanced budget. The boards involved have made commitments to develop plans to address deficit circumstances. Elected trustees are responsible for making financial decisions, outside of Ministry direct funding, and within the area of dual accountability. The Committee addressed differences between the separate and public boards with respect to debenturing. Separate boards can debenture a deficit which is not possible for a public board.

One Member of the Committee expressed the view that the grant system has fundamental problems, as it is not an equitable system for all students. The Ministry pointed out that conterminous public boards may have a stronger assessment base, even with the planned pooling arrangements of the assessment base, than will the separate school board.

The York RCSSB made the point that the programs vary significantly among boards and that the funding model needs to be restructured. The Board is responsible for 37 percent of the students in the Region of York and it receives 22 percent of the assessment. Members of the Committee emphasized the point that disparities exist and that financial resources are not distributed equitably. Several Members supported the idea of equality of grants.

The York Region RCSSB's growth has necessitated new facilities and a debenture debt was required to fund construction. Interest charges on this debenture have been an additional cost. A Member pursued the issue of the current debt. The Board is of the opinion that if they had an adequate assessment base over a period of years, there would not be a debt and therefore the problem is one of restructuring the funding model. In addition, the Committee raised the issue of the need for long term planning to anticipate resource requirements for capital projects.

The Members addressed the matter of whether or not all boards have equitable financial resources. One Member was of the opinion that the two boards audited had different views on whether this principle was being realized. The Ministry acknowledged the variation in tax bases and therefore the abilities to fund education. The Ministry is currently considering ways in which to determine the components and costs of a basic level of education and more accurate data on school board expenditures. Local boards decide to increase expenditures in some instances and this is not the Ministry's responsibility. Any adjustments to the funding model will be considered in conjunction with The Fair Tax Commission according to the Ministry.

The Auditor concluded in Section 3.6 of the 1990 Annual Report that "the Ministry has developed sound plans for improving the financial accountability of school boards. However, these plans will not be effective without better coordination and monitoring of the work of regional offices." The Ministry's six regional offices provide advice and have a major role in ensuring compliance on the part of the local boards. The

Auditor indicated that "better direction and coordination of regional activities such as enrolment and transportation audits are necessary." According to the Auditor's report, regional personnel would like more central direction and the failure to establish effective communication and coordination between the Ministry and regional offices has contributed to many of the problems noted.

The view was expressed by one Member that there is a general need to monitor expenditures on education more carefully, particularly at the regional level. Areas such as adult education programs and English as a Second Language (ESL) courses were suggested as possible areas for investigation, to determine the degree of compliance. Management Board's 1988 directive on "Transfer Payment Accountability" stresses setting objectives and results, contracting agreements, reporting results and taking corrective action.

In response to the matter of adherence to approved expenditures, the Ministry explained to the Committee the present procedure:

- We have set up an Education Expenditure Analysis Section in the School Business and Finance Branch to provide comparative and sectoral analysis of school board expenditures. This will give us a better understanding of patterns and trends in various spending areas and the corresponding funding provided by the province. It will also allow us to identify apparent anomalies.
- The second level of accountability pertains to grants provided for specific purposes. Reduction in grade 1 and 2 class size to an average of 20 pupils and heritage language instruction are examples. Here a board must demonstrate that the purpose for which the money was paid has indeed been achieved. These grants permit some flexibility on the part of the board while ensuring that the Ministry's goals are met. For example, the Select Committee on Education and the Ontario Public School Board Association have recently proposed joint Ministry-board efforts to determine the components and costs of a basic level of education. In fact, the Association has offered to work with us to develop more accurate data on school board expenditures and we have begun discussions with boards on how this might be done.
- One way of holding trustees more accountable to local taxpayers would be to require that local tax bills identify which portion of the education taxes are for provincially recognized expenditures and which are related to the decision of the local trustees.
- We are also creating a more comprehensive financial database which will allow a better measure of accountability for transfer payments. This will enable us to better analyze the cost-effectiveness of transfer payments and help us improve our funding policies. The results will be helpful in developing value for money measurements such as in the area of transportation.

- The new database will also contain specific data on school facilities which will improve our ability to identify the utilization of such facilities.
- And third, are the transfer payments that require both the outcome, and the expenditures to achieve that outcome, to be accounted for. Examples are grants for equipment, software purchases, special education consultants, etc. For these types of expenditures, unused monies may be returned to the Ministry or the cash-flow may be linked to achievement of results.

AUDIT PROCESS/EXTERNAL AUDITORS

The Auditor explained in Section 3.6 that inconsistencies existed in the expectation of the external auditors. For example, enrolment testing was done as part of the financial audit in some cases although this was not always indicated, nor were the results assessed. Furthermore, regional staff were not clear on the procedures performed by the external auditors. The Ministry's approach for a strengthened accountability system will endorse a value of money audit methodology.

The school boards are required to submit audited annual financial statements to the Ministry's regional office and to report on enrolment. The regional office conducts audits to verify enrolment and transportation expenses and discrepancies require adjustments in the current year's grant. The regions also assess capital project proposals.

The need for more consistent audit policies and the sharing of audit results are being addressed through the development of province-wide audit standards for audits of enrolment, transportation, facilities and financial checking procedures, according to the Ministry. Standardized checklists will be used to enhance in-board audits and a computer network system is being developed to assist in verifying board submissions. Staff at the regional offices responsible for auditing board data have received training to improve the sharing of audit information. Furthermore, the Ministry's regional offices will be audited within the next year by the internal audit branch.

The role of the external auditor is of concern particularly in relation to enrolment audits. The Ministry's response was as follows:

The Ministry will consider the feasibility of introducing procedures for auditing enrolments that are similar to those in effect at universities and colleges. At these institutions, the external auditor provides an opinion on the accuracy of reported

enrolments directly to the Deputy Minister. The Ministry provides each institution's auditor with specific instructions and with background information on the reporting requirements and on any special concerns. The degree of accuracy expected (the tolerable error allowed) is prescribed by the Ministry. The cost of the audit is borne by the institution.

Clarification of the role of external auditors would encourage consistency among them and help to eliminate any misunderstandings or duplication of auditing efforts among external auditors, boards, and the Ministry.

The Ministry has addressed the Auditor's concerns regarding inadequate documentation from the boards to support their ranking of projects by restructuring the 1991 Capital Expenditure Forecast. Furthermore, the need to improve the analysis of board submissions on proposals and to address verification procedures are being resolved, with input from the regional offices.

The Ministry acknowledged that it was not conducting the type of audits being done by the Provincial Auditor and that this is seen to be a weakness. In response, the Ministry has developed detailed questions for the audits.

The regional offices are the main point of contact between the Ministry and individual school boards, according to the Ministry. These offices clarify policies and monitor compliance with Ministry policies and programs. In response to the issue of improving the coordination among these offices and monitoring, the Ministry now has inter-regional office meetings.

The Committee has concluded that improvements are required in the school boards' audit process and that the Provincial Auditor should assist the Ministry in developing a standardized external audit format for boards. The Members have concluded that there are, in some instances, accountability problems at the local level and that the Ministry could assume a greater role in promoting economy and accountability through school board external audits. The Committee has noted the Ministry's accountability initiatives to assure that funds are used as instructed.

According to the Ministry of Education, the reports of school board external auditors are filed with trustees.

The Committee therefore recommends that:

1. **The Ministry of Education in consultation with the Provincial Auditor, shall review the factors relating to the subject of local accountability within school boards, particularly the external audit process, with the objective of recommending options to improve accountability.**

Transportation and Enrolment Grants

According to the Auditor's Report on the financial accountability framework for grants (Section 3.6), "school board external auditors were not given adequate direction on the nature and extent of enrolment audits required. Enrolment audits performed by regional staff were not consistent, complete or representative of schools in the region, and did not consider risk."

The Auditor summarized the problems with transportation grants as follows:

Although procedures were adequate to ensure that funds were spent on transportation, they were not adequate to ensure that expenditures were controlled.

- Serious deficiencies included the absence of a limit on the Ministry's share of transportation costs, which provided little incentive to deliver the most cost-effective services.
- Reviews and audits of board transportation submissions and expenditures were not consistent or effective.
- Few boards tendered for transportation services.

The Ministry concurs with the Auditor's concerns in the area of transportation. The problem in part derived from the structure of the grants, because the marginal local funding required in the existing system does not give a board any advantage in sharing its transportation system with other boards. This will be addressed in the 1991 GLGs, which will not require sharing, but will make it advantageous for boards to work together. The objective is to make the boards accountable for marginal routes and costs above the basic transportation requirements. The Ministry plans to provide the transportation money more heavily in the core grant and to allow the marginal grants

to be paid by local tax funds. This would be a greater incentive for boards to operate efficiently and possibly to share routes with coterminous boards.

The York Region RCSSB is taking remedial action in transportation. It is concerned with obtaining value for the funds available, but it did have problems with taking the low-tender bid in the past, as this approach can not ensure the required level of service in all cases. The Ministry of Education has indicated that it will provide guidelines on tendering for bus services. The Board expressed concerns over ensuring safety and service, the impact on route reductions on firms and the possibility of monopolies developing.

The Ministry pointed out that it agrees with the Auditor's views on the viability of tendering, provided that service and safety are not compromised and that "... in areas where there is little or no competition for routes, boards should compare proposed costs to those of boards that were able to tender for similar routes. The Ministry will be taking measures to ensure that enrolment and transfer payment audits meet province-wide standards ... which will include and examination of the tendering process and/or feasibility of tendering in its transportation audits."

The Ministry's regional offices conduct audits to verify enrolment claims and transportation costs. In the event of discrepancies, adjustments are made for grant ineligibility. According to the Ministry's supplementary report to the Committee "... there is almost always some adjustment as a result of audits. Most are minor. The number of major discrepancies vary from year to year, but is still a small percentage of the audits." The Ministry is pursuing the discrepancies noted by the Provincial Auditor with the two school boards through its regional offices. In the adjustment process, the regional offices scrutinize the audit information and ask for any additional information. The audit approach is to do a sample of boards each year, with follow-up audits.

The Members have noted that the Ministry is taking initiatives to ensure that audits meet province-wide standards and that the results are shared in the areas of enrolment and transportation, for example. Furthermore, the Ministry will examine tendering guidelines for bus transportation services.

The Committee endorses the Ministry's initiatives to ensure that expenditures are controlled in the area of transportation grants.

The Committee therefore recommends that:

2. **The Ministry of Education shall report to the Committee within 12 months on the status of the initiatives to clarify tendering policies and to standardize transportation and enrolment audits on a province-wide basis.**

Comprehensive Auditing

The Select Committee on Education's 1990 Third Report recommended that the Office of the Provincial Auditor should be encouraged to carry out comprehensive audits of boards on a regular basis and report its findings and conclusions to the public and the Minister.*

The Provincial Auditor's 1990 Annual Report (Section 2.10) noted that the Office of the Provincial Auditor has extended their inspection audit activity to include the school board community. Section 3.6 of the 1990 Annual Report dealt with the audit of the Ministry of Education's planned accountability framework for grants to school boards. The Provincial Auditor's objective was to assess the adequacy of the planned financial accountability framework with respect to . . . the accountability of school boards to the Ministry, for the grant money provided and the accountability of administrators to the boards of trustees.

The Provincial Auditor has authority under the Audit Act to perform inspection audits of transfer payment recipients. An inspection audit is defined in the Act as an examination of accounting records. The Provincial Auditor defined the terms comprehensive auditing and value for money auditing as follows:

Comprehensive auditing is a concept that encompasses three types of audits, namely: financial, compliance and value for money auditing activities. The term value for money auditing refers to an audit process which is designed to assess the components of the management function related to economy, efficiency and procedures to measure

* Ontario, Legislative Assembly, Select Committee on Education, "Third Report of the Select Committee on Education" (January 1990). The Report discussed the subject of accountability and endorsed school board audit committees and comprehensive audits of school boards, p. 43.

effectiveness. In essence, value for money auditing endeavours to go beyond the traditional activities of financial and compliance auditing to examine whether taxpayers are getting good value for their money.

The Committee has concluded that the scope of an school board inspection audit has been limited because it was restricted to an examination of accounting records, and that school boards should be audited on a value for money basis. Furthermore, the Committee acknowledges the autonomy of each board of education, but the Members are of the opinion that there is the need for accountability across the system on a value for money basis. This approach would permit a broad assessment of the components of management.

The Committee endorses the first part of recommendation No. C/R 4, of the previous Standing Committee on Public Accounts, in Report No. 2, June 1990.

The Committee therefore recommends that:

3. **The Audit Act shall be amended to provide the Provincial Auditor with the discretionary authority to perform value for money audits of any government agency and all transfer payment recipients**

FINANCIAL ACCOUNTABILITY WITHIN BOARDS

The Annual Report 1990 of the Provincial Auditor reported on the school board survey conducted as part of the audit process.

The survey indicated that most boards had adequate arrangements in place to hold board administrators accountable for financial management, although some concern was expressed:

- Several respondents indicated that they did not have a clear understanding of the roles, responsibilities and powers of administrators, boards of trustees, and the Ministry.

In response the Ministry stated that:

The Ministry will undertake to work with trustees' associations through training and orientation

programs and, if required, to amend the Education Act to define more clearly the roles, responsibilities, and powers of boards and the Ministry.

The recommendation that boards should assess the performance of administrators, on an annual basis, is being addressed by the Ministry in consultation with trustees' organizations and the Supervisory Officers' Association. The Committee acknowledges the importance of maintaining autonomy in the educational responsibilities of the school system.

School board trustees, according to the Ministry, "must be accountable to the Ontario government for the transfer payments from provincial coffers and they must, at the same time, be accountable to their local taxpayers and voters for the funds generated by the municipality's tax base." In 1991, the Ministry will introduce changes to simplify the funding model. The objective is to make trustees more accountable for decisions taken by the local board in areas such as transportation. The Ministry's brief to the Committee pointed out that the responsibility for expenditures and the delivery of services rests with the local board. The Ministry suggested that the accountability of trustees could be increased by identifying the decisions of these elected officials for expenditures, in relation to provincial funding and local taxation sources. It is the Ministry's view that a trustee is a policy maker and administrators are to administer and implement policies. Trustees have been requesting training and orientation programs for the clarification of their roles.

The Auditor's survey indicated that "school boards have had adequate policies and processes in place for responsible financial management." The Auditor also addressed the accountability relationship between school board administrators and trustees:

- most trustees indicated they received key financial information on a monthly basis;
- the extent to which there were specific control and support arrangements varied among boards;
- . . . trustees were provided with supporting information on major items and increases, comparisons of approved budgets to actual expenditures, and budget transfers, according to the Auditor's survey.

The Committee acknowledges the importance of cooperation and communication between trustees and the administrative officers of the Boards of Education, although some Members are of the opinion that trustees are not able to obtain all necessary information from the regional offices of the Ministry. The Members are of the opinion that trustees should have the opportunity to meet to discuss board matters in camera, without administration representatives in attendance and also that the trustees should be able to request that the external auditor attend such a meeting.

The Ministry explained that it is of the opinion that trustees can meet with the external auditor without school board officials in attendance. Under Section 149 of the Education Act "every board shall appoint a secretary and a treasurer or a secretary-treasurer who, in the case of a board of not more than five elected members, may be a member of the board" Members of the board are elected members only, according to the Ministry, and the only case in which the secretary of the board is a member of the board is as above. Usually the secretary is not an elected member of the board in large boards and this position is often given to the Director of Education. The Ministry concluded that the secretary has the duty of keeping a record of the proceedings, but that this responsibility could be taken by an elected board member and confirmed by the Chair. The Committee concluded that trustees should be afforded independence from the administration for their deliberations in camera.

Members stressed the importance of full disclosure of financial and administrative information to school board trustees from school administrators. Information should be shared and accessible to trustees for discussion in a public forum.

SCHOOL BOARD AUDIT COMMITTEES

The Auditor's Report on financial accountability (Section 3.6) addressed the subject of financial accountability to trustees on the part of school boards. Members acknowledged the importance of clear accountability relationships among the participants in the school system. For example, the school board audit committees assume a central accountability role in many of the larger boards. The Third Report of the Select Committee on Education (January 1990), Recommendation No. 24, stated that "Boards should establish audit committees of trustees and other members of the

community to carry out annual audits. The findings of these committees should be easily available and understandable to the general public." The Ministry is considering this recommendation.

The Ministry provided the Members with the following supplementary statement on audit committees:

Audit Committees are not currently mandated in the Education Act and therefore there is no information available at this time. The Ministry will undertake a survey to determine the extent to which school boards have Audit Committees and the scope of these committees. We are aware that some school boards have already broadened the expectations of their audit committee to include comprehensive auditing. We will encourage the establishment of Audit Committees and/or other mechanisms to ensure accountability at the local level.

The Ministry stated that it will encourage audit committees through the sharing of information on "best practices" in information/ training sessions, the development of guidelines and regional staff forums which could meet with school boards for discussions. The Ministry's current approach has been that of encouraging the boards to consider changes rather than mandating them.

The Ministry staff explained that they are looking at various options and approaches and are considering whether audit committees should be a requirement. The boards will be required to have "measurements" of their accountability, but the appropriate auditing mechanism is under review.

The Committee briefly discussed the possibility of the Ministry maintaining information on audit committees, that is which boards have them for example, the need for guidelines and the option to recommend that they be a requirement.

The York Region RCSSB disbanded their audit committee two years ago, but the functions of this committee are still addressed, through other committees, according to the Chairman of the Board.

The Lakehead Board's executive committee operated as the audit committee from 1979, and since 1989 there has been a formal audit committee, with membership from the Board and the public, comprised of three trustees and three external members. The audit committee is studying transportation routes with respect to usage and walking

distances; has initiated the formalization of the variance policy and financial statements; and has developed procedures and policies for budget planning and central computerization plans and procedures.

The Board stated that the audit committee is helpful and that the three external members contribute significantly through their professional backgrounds. The audit committee is used as a "sounding board" according to the witnesses. Furthermore, it will be initiating a review of the audit in June 1991 to verify follow-up to the Auditor's Report. Finally, there is a motion for an internal auditor/inspector who would report directly to the trustees. This recommendation is being considered by the audit committee.

Ms Dodds supports a provincial linkage which would bring audit committees together from across the province in the task of scrutinizing boards. The Lakehead Board's audit committee's mandate is as follows, according to Ms Dodds:

The committee's mandate is to review all financial reports before they go to the board and to add comment or clarification, where needed, to follow up the recommendations from our annual audit and the management letter of recommendations, to recommend to the board areas of the operation that should undergo periodic comprehensive audit.

The Members acknowledged that the Lakehead Board's experience is a very good example of the cooperative benefits of an audit committee to further the efforts to ensure the accountability of transfer payment agencies.

The Committee concluded that audit committees have an important role to play in the accountability process in school boards.

The Committee therefore recommends that:

4. **An audit committee shall be a legal requirement for all school boards as it is a necessary component in the accountability process. These committees should be comprised of members from the general public, in addition to school board trustees.**

Professional Services

The Committee acknowledges that professionals such as accountants and lawyers employed by a board are governed by the standards of conduct established by their

professional associations. Nevertheless, the Members are of the opinion that a change of professional firms on a periodic basis may assist in reinforcing the importance of maintaining an impartial relationship between professional firms and a school board's administration.

According to the Ministry of Education, a board is not required to rotate or replace an external auditor on a periodic basis. Furthermore, the legislation does not allow the dismissal of an appointed auditor except for cause.

Management Board's Directives on Purchasing and Supply Management outline the benefits of a competitive selection process for acquiring services in an economical manner and ensuring efficiency and value for money.

The Committee is of the opinion that a review of services provided to a school board would encourage a regular assessment of such expenditures.

In the event that a board decided to consider other professionals, a competitive process with tendering is preferred.

The Committee therefore recommends that:

5. **Professional firms, such as accountants and lawyers, providing services to school boards, shall be reviewed on a regular basis, at least every five years, although a change of firms may not be necessary. The Ministry of Education shall pursue this recommendation through legislative amendments.**

SCHOOL UTILIZATION/CLOSURE POLICIES

In Section 3.6 on financial accountability for Ministry grants to school boards, the Auditor noted that "the Ministry did not monitor school utilization or compliance with school closure policies." The need to monitor under-utilized schools is under discussion by the Ministry for inclusion in the capital allocation process. The issue is often controversial with spirited community reaction to closings and transferring of under-utilized schools.

In a discussion of functional rated capacity of a given school, a Member raised the subject of when a school should be examined for closure and consolidation. This

procedure has not been reviewed recently by the Ministry, although they are in the process of a capital grant plan review. The Ministry pointed out that changes are being made to the school closure policy to clarify transfer and closure terms.

The Auditor concluded that the Lakehead Board of Education "[the Board] has in recent years been slow in studying and taking action to reduce the number of under-utilized schools." The Lakehead Board pointed out that during the period 1979-1990, 10 schools were closed and another one will be closed in 1991. Also, the Board has plans to close another high school and all elementary schools are under study. A "facilities requirement review" will be undertaken by the Board to identify long-term needs. The Director of Education pointed out that the administration has recommended school closures, acknowledging the importance of financial accountability. On the subject of school transfers, the Board assured the Committee that it has complied fully with legal requirements, which includes a study of relevant factors prior to the transfer.

RESOURCE SHARING

The Provincial Auditor reached the following conclusion on resource-sharing among boards:

Although most boards shared some resources with other boards, few sought opportunities or commitments to share further.

In response, the Ministry stated that:

The Ministry continues to promote co-operation and sharing of resources among boards. In developing Board-specific Grants and Program-specific Grants in the future, the Ministry will take into consideration the extent to which boards can share resources.

The Ministry's opening remarks to the Committee pointed to the need for value for money in education expenditures. In response to the Committee's request for elaboration, the Ministry prepared a list of ways in which it is promoting value for money initiatives; namely, program accountability (e.g., the National Assessment of Educational Progress); benefits of computers in education; transportation; conditional

grants (funding based on effectiveness in programs); expansion of facilities' audits; and resource sharing (e.g., summer school programs). The Ministry elaborated on the options, with reference to sharing the services of a superintendent and common transportation routes.

The York Region RCSSB has plans to work jointly on transportation with the coterminous board. Members endorsed these cooperative efforts: to share common bus routes; to consider municipal bus service as an option; to stagger bus trips thereby using the same vehicles; and to provide the joint audio-visual resource centre.

The GLG for 1991 includes changes to the transportation grants to provide greater incentives to school boards to achieve efficiencies in working together. Marginal costs above the basic per-pupil transportation grants, will now be decided upon and paid by the school board and not the province. The Planning and Implementation Commission's role is to meet with public and separate boards as appropriate to encourage the sharing of facilities in the case of under-utilized buildings to transfer buildings to other boards.

The Ministry's policy is one of encouraging change at the board level and this applies to the sharing of facilities. A Member raised the point made by the Auditor on insufficient Ministry incentives for sharing. The Ministry has provided co-ordination in the past and brought interested parties together, but the main approach includes information sharing, sharing of best practices, developing guidelines and providing training sessions. The objective is to maximize on collective resources. It was suggested by one Member that voluntary methods of resource sharing are needed and the Ministry pointed out that the Minister has encouraged sharing at the community level.

The Lakehead Board was asked about cooperative sharing efforts between boards in the area of maintenance, transportation and purchasing. The Board feels that there must be cooperation and sharing will all school boards in the north, which means that the large boards have a commitment to assist small boards in areas such as computer expertise, purchasing/warehousing, curriculum materials and media resources for example. There are ongoing discussions also in the area of bus transportation contracts, through the "public agencies consortium" for purchasing in the north, which includes municipalities, hospitals, and separate and public school boards. The route

sharing approach meets with the bus operators' approval. The use of municipal services has been successful for secondary schools, through a bus-pass concept. The economies possible through shared computer services, warehouse purchasing and the film tape library are recognized. A Member raised the idea of sharing in the area of general maintenance, which according to the board has not been pursued.

The Committee is of the opinion that there is a need for the sharing of resources. A cooperative effort is needed to require boards to share in an effort to reduce expenditures in areas such as transportation. As noted by the Auditor "... many boards reported at least some sharing of resources in areas such as transportation, information systems, purchasing of supplies and professional development. However, the majority of boards felt that there were few opportunities and little need for further sharing of resources"

Policies to implement the cooperative sharing of school board resources may require a standardization of regulations and procedures with public and separate boards, for example in the area of safety guidelines.

The Committee has concluded that educational services should be provided as efficiently and economically as possible, through innovative cooperative practices and the sharing of resources.

The Committee therefore recommends that:

6. **The Ministry of Education shall explore options to promote the sharing of school board resources as a cost saving measure. Current resource-sharing practices by some boards should be encouraged on a province-wide basis, on items such as:**
 - **transportation;**
 - **information systems;**
 - **purchasing; and**
 - **professional development should be encouraged on a province-wide basis.**

The Ministry shall prepare a "resource sharing policy" with appropriate incentives and sanctions to encourage school boards to pursue this approach.

SPECIAL FUNDING, PORTABLES AND COMPUTERS

The Auditor reported on the violations of grants under the Grant Eligible Microcomputer System (GEMS) and the Capital Grant Plan for classroom portables. The Ministry's response was as follows:

In response to the review of the two school boards, the Ministry will be more closely monitoring the use of conditional grants. This monitoring will include ensuring that grants for specialized areas (e.g., portables) and for equipment (e.g., computers) are being used for the purpose intended.

The expenditure of grant money items not approved and the misuse of portables were of concern to the Committee. The Ministry does retrieve funds spent inappropriately. Re-adjustments are made in subsequent years to balance the misuse of funds, rather than reimbursing the Ministry.

Members discussed the importance of ensuring that funds, appropriated for a particular purpose, are in fact used as directed. The Committee discussed aspects of the Third Report of the Select Committee on Education (January 1990), namely the funding mechanisms for special education and the role of comprehensive audits, recommendations No. 8 and 25. The Select Committee's recommendation No. 8 stated that, "as long as special education monies are part of the Basic Per Pupil Block Grant, the Ministry should continue to identify that portion of the Grant specifically spent on special education such that SEACs [Special Education Advisory Committees] and parents in the community can monitor school boards' expenditures on special education programs." At issue is the necessity to ensure compliance, that funds targetted for specific objectives are spent accordingly. The Standing Committee on Public Accounts concurs that funds should be identified clearly for program purposes.

The Committee pursued the idea of promoting "good business practices" and reconciling incorrect invoices immediately. The Ministry has a recovery process in place, for example to deal with incorrect enrolment figures. If a board receives more money than it is entitled to receive, there is an automatic adjustment of the grant and the money is refunded to the Ministry or deducted from a future grant.

The York Region RCSSB used the same computer funds provided under GEMS for elementary schools and applied them to computer equipment for secondary schools.

The Board established its own priorities and therefore did not follow the terms of the grant. The Board felt that this was the best utilization given curriculum priorities, but it has agreed to redress the situation. This matter is under discussion with the Ministry.

The Committee also expressed an interest in the accounting process for capital funding. The York Region RCSSB explained that capital is defined as per pupil accommodation in schools, additions and portables. Many of the portables, for example, are not approved and not funded, therefore the costs are paid for through a debenture issue. The allocation of portables needs to be addressed, according to some Members, given the current demand particularly in high growth areas.

According to the Ministry of Education, external audit reports do not provide information on the basis of "program specific grants," but rather they address grants in the totality. The Ministry does not conduct audits of special program grants as the concern is primarily with establishing need and the extent of assistance required. The follow-up audit process will be addressed in the future through the Ministry's enhanced accountability system. The Committee concluded that funds granted to school boards should be accounted for under all circumstances and that these funds should be allocated with the understanding that the expenditures must be readily identified on a program basis.

The Committee therefore recommends that:

7. **When the Ministry of Education allocates monies to the Boards of Education on a "designated program basis," specific program objectives shall ensure that funds are spent as intended and stress the need for improved monitoring of special grants. Accountability would be facilitated if programs were identified in "funding envelopes," rather than allocating Ministry grants in a single undifferentiated payment.**

PURCHASING

Auditor's Conclusions

The auditor reports on the Lakehead Board of Education and the York Region RCSSB indicated problems with purchasing procedures.

Lakehead Board of Education

Purchasing decisions were not documented sufficiently to demonstrate either compliance with

Board policies or effective control over purchases.
Specifically:

- Many transactions did not have evidence of written or formal quotes as required by Board policy.

Student transportation contracts were awarded in accordance with Board policies and procedures. However, [the Auditor was] concerned that:

- Bus contracts were not tendered periodically.
- Route information supplied by bus operators was not verified to ensure the accuracy of the figures presented.

York Region RCSSB

Controls over purchasing were less than adequate.
Specifically:

- Many transactions did not have evidence of quotes or formal public tender.
- Schools and departments often purchased goods and service directly, thus bypassing the purchasing department.
- The Board did not award school bus contracts based on the lowest tendered price.
- Improvements in the management of bus routing could result in significant annual savings. For the routes reviewed, more than \$1 million was identified.

Purchasing/Tendering

The Lakehead Board of Education has taken steps to ensure full documentation of transactions to comply with policies and a review of purchasing policy, procedures and internal control will be undertaken in 1991. Second, contract buying and central warehousing is being investigated to increase effectiveness and efficiency. Purchasing and quotation limits will be reviewed. Third, the Board does not tender transportation contracts because it has concluded that the lowest bid may result in poor service and a monopoly situation. Nevertheless, costs are comparable to other boards. Although the Board did not conduct route audits from 1987 to 1989, detailed estimates were performed. A policy and procedures review has been completed and a computerized transportation management system has tentative approval.

The tendering problem has been one of employees not following board policy, as most boards have policies to guide purchasing and tendering. The failure of boards to follow proper tendering and purchasing procedures was discussed. The Ministry has had concerns that a number of boards were not tendering and according to the Ministry in certain parts of Ontario it is impossible to tender, as there may be only one transportation company. Measures are being developed to ensure proper tendering and if this is not possible, then comparisons would be required with boards that are able to tender. The Ministry has been working with the boards, to resolve the tendering problem and it will be following-up on this matter.

The Committee addressed the tendering problems with reference to compliance with policies and procedures, proper documentation and proper use of the logbook. The Lakehead Board has hired a buyer to ensure that policies are followed, purchases over \$25,000 are tendered, documentation on all tenders is recorded and duly authorized. The Board feels that the system is now centralized and that this will address the problems. The trend is toward more tendering, with the possibility of contract buying.

PAYROLL TRANSACTIONS

Auditor's Conclusions

The Auditor made the following comments on the budget process.

Lakehead Board of Education

During the examination of selected aspects of payroll administration, [the Auditor] noted:

- Controls over payments for overtime and supply teaching were weak.

York Region RCSSB

Financial controls over the processing of payroll transactions were satisfactory. However, [the Auditor] noted that if part-time teachers were paid on the same basis as other local boards, annual payroll savings of \$265,000 could be realized.

The Lakehead Board's payroll transactions had problems in the control of payments for overtime and supply teachers. Procedures have been implemented to ensure that authorized signatures are documented and that all time sheets are authorized.

Twenty-five percent of the transactions are currently audited. Also, the Board feels that the issue of matching supply teacher payments to teacher absenteeism records is a province-wide matter that will be addressed through the Ministry's new integrated payroll and personnel system.

Teachers' Negotiation Process

The Provincial Auditor noted the following concerns in the 1990 Annual Report.

- In effect all teachers obtain similar contract provisions despite separate negotiations. Teachers at one board negotiate a contract which serves as a benchmark for those at surrounding boards.
- Negotiations leading up to agreements can be very costly for all the Province's school boards. A review of the negotiation process by the provincial government may resolve the concerns raised by trustees, administrators and the Ministry of Education.

The Ministry's position on the teacher negotiation process is that it may be addressed in a review of education finance. The Minister of Education indicated the need for the education finance system to be reviewed and in the process all matters would be addressed including salaries and pensions.

The Auditor's Report (Section 3.6 - Financial Accountability Framework for Grants to School Boards, Ministry of Education) addressed the subject of teacher wage negotiations. It was noted that there have been concerns with the present localized collective bargaining system. The Auditor's 1990 Annual Report, Section 3.6, made reference to the Macdonald Report's concerns with respect to teacher wage negotiations, which are conducted on a localized collective bargaining basis. The Ministry responded that these issues would be addressed in any review of Bill 100, An Act to Amend the Education Act.

The York Region RCSSB pointed out that teachers are within the collective agreement and that it will be respected. The Board has acknowledged the need to be competitive

and this has been realized in salaries. The benefits package for part-time teachers was developed in 1972 by the York Region RCSSB as an incentive to attract part-time teachers especially. The Board accepts that this practice should have been reviewed and it stated that it is being investigated.

The Committee discussed several issues of relevance to the collective bargaining process; namely, the reduction in class size, the cost of severance payments and the proportion of the time each day spent by teachers in the classroom.

The Committee concluded that improvements could be made to the collective bargaining process. Teachers' contracts are negotiated by each board of trustees under the current system.

The Committee therefore recommends that:

8. **The current "localized bargaining system" for teachers shall be the subject of a Ministry of Education review. This process has raised concerns among trustees, administrators and the Ministry of Education.**

Unfunded Retirement Gratuities

The subject of unfunded retirement gratuities was raised by the Select Committee on Education. It was recommended that these gratuities should be included in school boards' auditing functions and financial statements. According to a Member, this account is an unfunded liability and it is not required to be reported. The Member endorsed full public disclosure of this liability. The Select Committee's report is still under consideration by the Ministry and there has not been a policy change in this regard.

ASSET MANAGEMENT

The York Region RCSSB could not report a figure for vandalism, but acknowledged that pieces of high-tech equipment had gone missing. A member pointed out the problem of system abuses and that the Board's finance or audit committee may have approached this matter.

INSPECTION AUDITS' REPORT ON UNIVERSITIES

Trent University (1988 Annual Report of the Provincial Auditor)

University of Guelph (1989 Annual Report of the Provincial Auditor)

University of Toronto (1990 Annual Report of the Provincial Auditor)

Enrolment Reporting Matters

University of Toronto (1990 Annual Report of the Provincial Auditor)

PREAMBLE

The Provincial Auditor's reports on the inspection audits of Trent University, the University of Guelph and the University of Toronto, and the report on enrolment reporting matters at the University of Toronto (Section 2.6, 1988 Annual Report; Section 2.8, 1989 Annual Report; and, Sections 2.8 and 2.9, 1990 Annual Report) were considered by the Standing Committee on Public Accounts at hearings held at Queen's Park, Toronto on 4, 5, 6, and 7 February, 1991.

Witnesses from the Ministry of Colleges and Universities and Trent University, the University of Guelph, and the University of Toronto appeared before the Committee. The Committee's agenda included the following list of witnesses:

Ministry of Colleges and Universities

- Thomas A. Brzustowski, Former Deputy Minister
- Ralph Benson, Assistant Deputy Minister, Colleges and Student Support
- Jamie Mackay, Director of University Relations Branch
- David Lyon, Executive Co-ordinator, Corporate Planning and Services

Trent University

- Robert W.F. Stephenson, Vice-Chair, Board of Governors
- John O. Stubbs, President and Vice-Chancellor
- John W. Earnshaw, Vice-President, Administration and Finance

University of Guelph

- Mrs. Solette Gelberg, Vice-Chair, Board of Governors
- Brian Segal, President

University of Toronto

- R.J. McGavin, Chair
- J. Robert S. Prichard, President
- Richard Criddle, Vice-President, Audit Information
- Geoffrey Clarkson, Ernst & Young, External Auditors

The Committee would like to thank the witnesses and to acknowledge receipt of the supplementary documentation in response to the Committee's requests. This material has been useful in the Committee's deliberations and in the preparation of recommendations.

This Report was prepared by the Legislative Research Service, pursuant to the instructions of the Standing Committee on Public Accounts. The Members would like to acknowledge the assistance provided by the Office of the Provincial Auditor, the Committee Clerk, and the Legislative Research Service.

INTRODUCTION

The Provincial Auditor's scope and objectives for the four audits were to assess the adequacy of the universities' accounting records and related procedures.

This process included an examination of:

- the accuracy of the enrolment data submitted to the Ministry;
- asset management and control systems;
- purchasing and payment practices;
- the adequacy of controls over payroll, operating expenditures, and sabbatical leaves; and,
- general compliance with policies and procedures.

This Report makes recommendations in the following areas: accountability for transfer payments; enrolment reporting; payroll, purchasing and payment practices; control over furniture and equipment, and restricted funds and targeted programs.

The Auditor concluded the university inspection audits with the statement that "accountability for the significant amount of funding provided to Ontario's universities remains inadequate." Furthermore, the external audits and the inspection audits conducted by the Office of the Provincial Auditor have not resolved the problem. The Auditor explained the lack of accountability as follows:

The enabling Acts for universities place responsibility for the government, conduct, management and control of universities with their governing bodies. To whom these governing bodies are accountable is an issue that remains in limbo. Since the Ministry provides universities with most of their funds, one would logically

expect that accountability would be to the Ministry. The Ministry, however, maintains that it lacks the legislative authority to establish such a relationship. Instead, the Ministry believes that the governing bodies are accountable directly to the public. Accordingly, it has encouraged universities to report publicly on their performance and stewardship of public funds. No meaningful reporting has as yet been forthcoming.

The Ministry of Colleges and Universities explained that the Auditor's findings are in two areas, the Ministry's statutory and regulatory control, and the respective legislative jurisdiction of the universities. The present accountability system, according to the Ministry, is comprised of annual reports, audited financial statements, reports to funding agencies, for example, as well as academic responsibilities such as the following features:

- the provision of quality education;
- internal academic review and approval of new programs;
- review of graduate programs and professional undergraduate programs by the Academic Advisory Committee of the Ontario Council on University Affairs; and,
- accreditation review of graduate programs by Ontario Council on Graduate Studies.

The Ministry's discussion of accountability addressed the point of "whether society has been and continues to be well served with the amounts of public funds entrusted to the universities to deliver university education and engage in research." In summary, according to the Ministry:

The universities remain fully responsible and accountable to the public, by virtue of their respective enabling legislations and their governance structures, for the proper expenditure of public funds and to the extent that a value-for-

money approach to conducting their audits will enhance the discharge of these responsibilities, it is a matter that is deserving of their consideration.

ACCOUNTABILITY FOR TRANSFER PAYMENTS

Overview

On the basis of cross-ministry and special audits, the Provincial Auditor expressed fundamental concerns with the inadequacy of the accountability system for transfer payments. In 1988 the Management Board Secretariat issued a directive on transfer payment accountability with the objective of establishing a management accounting framework for recipients of public funds. This accountability process requires that management objectives and results are identified in relation to transfer payments. Although the process is still in its formative stages, the importance of developing an accountability framework for the expenditure of public funds in the form of transfer payments is recognized.

The Provincial Auditor's 1990 Annual Report addressed the subject of transfer payments and the need for enhanced accountability. According to the 1990 Annual Report:

Transfer payments exceed 70 percent of the annual Provincial expenditures . . .

The Government directly controls transfer payments which are made to individuals, or to others such as physicians or pharmacists providing services to the public. In the 1990 fiscal year such payments amounted to \$8.1 billion, or approximately one quarter of total transfer payments of \$30.5 billion. However, the Government does not directly control the use, safeguarding or expenditure of the other three

quarters of the funds, which represent transfer payments to intermediary organizations or bodies providing services to the public (e.g., hospitals, school boards, universities).

The three inspection audits were conducted by the Provincial Auditor's office with the limitation that the reports would be restricted to expenditures funded by grants from the Ministry of Colleges and Universities. Expenditures paid for through other funding sources, for example private donations, federal grants or ancillary sources of revenue such as a university bookstore were excluded, as reported in the 1990 Annual Report. The narrow interpretation of an inspection audit by the universities restricted the Provincial Auditor's scope, thereby preventing an assessment of operational areas.

At issue in this report is the traditional autonomy of the university community and need in the 1990s for administrative accountability for government transfer payment funding. According to the Ministry "by Acts of the Legislature, universities of Ontario are autonomous institutions." This autonomy gives them the authority to control academic programs and administrative functions. In the statement to the Committee, the Ministry of Colleges and Universities responded to the Auditor's concern that accountability is inadequate, by pointing out that there were no cases reported in which funds were misused. However, in the area of enrolment reporting, the Ministry agreed that problems existed which had to be addressed to ensure that funds are distributed equitably.

The Ministry provides public funding in the form of operating grants and the government establishes the basis for the distribution in the Ontario Operating Funds Distribution Manual. The Ministry explained the relationship with the universities as follows:

The existing accountability framework between universities and the Ministry is predicated on this relationship [operating grants] and the statutory provisions of each university's enabling legislation. The Ministry's policies and procedures respecting the funding of and the distribution of funds to the universities is embodied in the Ontario Operating Funds Distribution Manual.

The audited financial statements submitted by the universities are "a major element of accountability" according to the Ministry. The second step in the review process is the report on the revenues and expenditures of the universities, prepared and submitted by the Committee of Finance Officers, Universities of Ontario, of the Council of Ontario Universities. Third, each university submits an audited enrolment report to the Ministry. Finally, the reporting mechanisms for targeted funds vary, with some not requiring a formal report or audit.

Trent University referred to accountability as a "highly complex matter." The accountability process at Trent is comprised of the Board of Governors, the external audit process, audits conducted by funding and government agencies, external audits of research disbursements, enrolment report audits, University reports to government agencies, the Council of Finance Officers of the Ontario Universities financial report and the annual report to the Ontario Council on University Affairs. Furthermore, regulatory requirements must be addressed in such areas of pay equity and employment equity. External consultants assess the efficiency and effectiveness of administrative departments and the academic areas are reviewed both internally and externally on a continuous basis through such bodies as the Ontario Council on Graduate Studies.

In their opening statement, the University of Guelph explained that "there can be no doubt that universities have a duty to be accountable to the government and to the public for the responsible expenditure of funds, a significant

percentage of which comes from the public purse." The University explained the high degree of autonomy of the university system and the legal responsibility of the Board of Governors to oversee the affairs of the institution. The nature of the internal and external accountability system was discussed in relation to commitments to government ministries, agencies, accrediting agencies, granting councils and external effectiveness reviews of academic departments.

The witnesses from the University of Guelph explained that " . . . the University of Guelph's Board of Governors believes that the key to the practice of public accountability lies with a responsible lay board . . . which, in our opinion, demonstrates a high degree of personal and corporate commitment to the philosophy espoused by the Provincial Auditor." The accountability system includes such features as an open board meeting and an audit committee which ensures financial controls and performance appraisals of senior administrators. The Board "sets a highly responsible business plan and monitors the Administration's management to ensure that expenditures are within the limits we have established."

The University of Toronto expressed the view that "the autonomy given to our universities is not possible today without two things: first, clear provisions for public accountability and second, internal mechanisms to mould the work of our highly skilled faculty and students into a set of programs and activities." Public accountability and academic self-governance are fundamental challenges of the system. The Chairman outlined aspects of the role of the Governing Council as trustees with the context of accountability.

The University is a self-governing community. . . but it is also a public institution with much of its income coming from the taxpayers and from the University's benefactors . . . the governors are accountable to the public to assure that the University maintains and enhances its position as

an institution of academic excellence and to assure that the public's funds are being spent responsibly and effectively.

Inspection and Value for Money Audits

The scope of the inspection audits of the university system was the subject of a legal opinion prepared for the Council of Ontario Universities. The firm of Osler, Hoskin & Harcourt concluded as follows in their report dated 24 July 1987:

In conclusion, in our view, based solely on an examination of the language of the [Audit] Act, there are two limitations on the authority of the Auditor to perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund pursuant to s-s. 13(1) of the Act. The inspection audit should be limited to an audit of grant payments received by a university and it must be limited to an examination of the university's own accounting records. In the event that the Auditor complies with these limitations, para. 12(2)(f) of the Act gives him the authority to report on such financial matters as in his opinion should be brought to the attention of the Assembly.

The narrow interpretation of the Auditor's authority under the Audit Act prevented the inspection audit scope from including an assessment of several areas. According to the Auditor: "... we cannot assess whether public funds were spent with due regard for economy, efficiency or effectiveness. We cannot determine whether money was spent for the purposes intended in accordance with policies established by the governing bodies." A value for money audit by contrast would have permitted a broad review of management

functions. Furthermore, the Auditor pointed out that "we were not permitted access to the minutes of meetings held by the governing bodies or their committees."

The Standing Committee on Public Accounts released Report No. 2 in June 1990. In this document the Members addressed proposed changes to the Audit Act. It was acknowledged by the Committee that the inspection audits of transfer payment recipients, such as universities and hospitals, is "an examination of accounting records" and that the focus of such audits does not include the broader management functions. According to the Office of the Provincial Auditor, "the term value for money auditing refers to an audit process which is designed to assess the components of the management function related to economy, efficiency and procedures to measure effectiveness. In essence, value for money auditing endeavours to go beyond the traditional activities of financial and compliance auditing to examine whether taxpayers are getting good value for their money."

The Committee is of the opinion that transfer payment recipients should be audited on a value for money basis, which is the case for ministries and agencies. The necessary amendments to the Audit Act should permit access to all receipts and disbursements, and transfer payment recipients would be audited without the current limitations to "accounting records." The confidentiality of information which is of concern in hospitals, for example, would be protected under a value for money audit.

The Committee has considered carefully the autonomous nature of universities in society and their traditional role, which is defined in part by the principle of academic freedom. The government should not influence internal decisions of an academic nature, for example, teaching appointments and tenure, course content, teaching and research. Although universities are legally autonomous, they are dependent on funding by the provincial government transfer payments

and, therefore, the Committee has concluded that a new system of administrative accountability to the Ministry is necessary to report on the use of public funds.

The Committee is of the opinion that the inspection audits of the universities were restricted which prevented the necessary scope to conduct a full assessment of management functions. The Members are of the opinion that the limitations on the Provincial Auditor did not permit a full and comprehensive audit reports on the three universities and that the Audit Act should be amended to permit value for money audits of transfer payment recipients.

The Committee therefore recommends that:

- 9. Amendments to the Audit Act shall be introduced in the House, for first reading, by December 31, 1991 to provide the Provincial Auditor with the discretionary authority to perform value for money audits of any government agency and all transfer payment recipients. In the case of universities, this audit approach will help to address the management accountability of each university's administration, while at the same time respecting the academic autonomy of these institutions.**

Management Guidelines

The Standing Committee on Public Accounts recognizes and supports academic freedom within the university community, however, on the basis of the findings in the inspection audits and the hearings, the Members have concluded that the accountability process between the Ministry of Colleges and Universities and the universities in the area of operational and management matters should be revised.

The Committee has concluded that the Ministry should establish new reporting requirements for the administration of universities, and that the Ministry should

have an active role in monitoring compliance with respect to the management of provincial operating grants.

In consultation with the universities, the Ministry should develop administrative guidelines and regulations for an enhanced accountability system for administrative matters in universities. The principles of economy and efficiency as well as procedures to measure effectiveness should be incorporated in the guidelines. This new accountability system could address such matters as the need for an asset accounting system and it should be subject to value for money audits.

The management principles in the Management Board Directives and Guidelines, such as those in "purchasing and supply management," outline the necessity of the competitive process in the acquisition of supplies, equipment and services to ensure best value. The Committee has concluded that the Ministry in cooperation with the universities should develop normative models for management guidelines taking into account Management Board's Directives and Guidelines. These guidelines should account for the unique circumstances in each institution and should be developed in conjunction with each institution's board of governors.

The Committee therefore recommends that:

10. The Ministry of Colleges and Universities, in consultation with the universities, shall develop administrative guidelines for an enhanced management accountability mechanism, based on the principles of economy, efficiency and standards/procedures to measure effectiveness in universities. Through these management guidelines, the Ministry shall establish standards, for example, to assist universities in developing asset accounting records and to acquire supplies, equipment and services based on management principles.

Accountability Relationships

The Committee is of the opinion that in addition to the reporting requirement of the board of governors in the formal financial report or annual report, as set out in the particular university's enabling legislation, that the accountability relationship between each board of governors and the university administration and the Ministry should be assessed and recommendations should be prepared to strengthen the reporting process. The Members have concluded that the board of governors of each university should be encouraged to participate in the enhancement of management accountability and should report to the Ministry on initiatives undertaken or planned to promote management accountability.

The Committee therefore recommends that:

- 11. The Ministry of Colleges and Universities shall report to the Committee within 12 months on initiatives proposed by the universities to clarify the accountability relationship between universities' administrators/boards of governors and the Ministry.**

Financial Accountability

In the review of the audited financial statements and the audited enrolment statements for each institution, the Ministry should comment on the financial accountability of each institution with respect to deficits and the possible need for special funding. The legislative authority to manage financial affairs rests with each university although the long-term financial requirements are a Ministry concern.

The development of Ministry management guidelines, as discussed in this Report, would help to clarify the management responsibilities of each university and the financial role of the Ministry. The Ministry has taken the

initiative to require external auditors to follow Enrolment Reporting Guidelines and to report on additional information relating to reporting errors and the interpretation of enrolment guidelines.

The Committee therefore recommends that:

- 12. The Ministry of Colleges and Universities shall analyze the universities' financial statements and as necessary consult with the universities to prepare recommendations to avoid unnecessary deficit problems and the need for special funding.**

ENROLMENT REPORTING

The Provincial Auditor identified enrolment reporting concerns at Trent University, the University of Guelph and the University of Toronto as follows:

Auditor's Conclusions and Findings

Trent University

We calculated that since 1982, Trent has received approximately \$11 million which might otherwise have been granted to other universities. This \$11 million resulted from the University's use of enrolment reporting criteria which lacked evidence of required Ministry approval.

As a result of events subsequent to our audit, including the granting of retroactive approval by the Ministry, both Trent and the Ministry have concluded that no overpayment has actually occurred.

In addition, the University has failed to adhere to its own established enrolment criteria, resulting in overstatements of reported enrolment for funding purposes.

University of Guelph

Improvements were required in enrolment reporting procedures. Many students were improperly reported, resulting in higher enrolment for funding purposes.

University of Toronto

We found reported enrolment data for the 1989 fiscal year to be accurate and in compliance with established guidelines.

Overview

According to the Ministry, the Ontario Operating Funds Distribution Manual "in effect serves the purposes of a regulation and sets out the basis on which funds are distributed and the reporting requirements . . . " The Manual's primary objective is to ensure consistency and equity among the institutions in enrolment reporting through enrolment definitions, eligibility policies and reporting procedures. Also, it addresses occurrences based on specific application rulings and interpretational issues.

In response to the inspection audit, Trent University has introduced system safeguards to limit funded enrolment fluctuations and the new honours/general program standards for Arts and Science students. The University officials are of the view that the "enrolment counting errors identified by the Provincial Auditor did not generate a materially significant overstatement of enrolment." In response, the University has made changes to the registration system.

The Ministry explained that "instructions regarding audit verification procedures were reviewed. Changes resulting from the review will be reflected in revisions to the Ontario Operating Funds Distribution Manual for the 1991-

92 fiscal year." They will address such issues as the "incorrect recordings of students at count dates" and the inclusion of ineligible foreign students in these counts.

In response to the Auditor's comments on enrolment reporting, the following steps have been taken by the Ministry.

The first is a review of relevant sections of the Ontario Operating Funds Distribution Manual. This has resulted in changes effective 1991-92 to address the enrolment reporting weaknesses observed by the Provincial Auditor.

The second is a review of the issue dealing with the reporting of students in Honours or General Arts and Science programs by the Ontario Council on University Affairs. The ministry accepted the Council's recommendations contained in its Advisory Memorandum resulting in new reporting guidelines which will come into effect for all institutions in the 1992-93 enrolment reporting cycle.

On the matter of enrolment reporting, the Ministry pointed out that "it is a fundamental feature that all student counts be translated into a common measure of weighted enrolments." The Ministry reported to the Committee that the new reporting guidelines for the 1992-93 academic year will have the following impact.

The result of implementing these new reporting guidelines will reduce the variability in classifying general and honours students and introduce greater inter-institutional fairness and consistency in reporting practices.

In the case of Trent University, the Ministry explained to the Committee that Trent's adjustment to their grading system in 1982 was consistent with the

University's prior grading system and also with other universities. Trent explained to the Committee that in 1982 it had refined rather than changed the "practice of counting" approved in 1968. The University notified the Ministry in 1982 of the Senate's decision to "refine" the grading system. In summary, Trent explained that "the retroactive approval was a confirmation that this [Trent's] notification should have been a little more serious in 1982 than just a letter saying [to the Ministry]: 'Here is our new grading scheme.'" The Ministry pointed out that the overpayment to Trent in operating grants attributed to this adjustment to the system was \$1.3 million for the period 1982-83 to 1986-87.

The University of Guelph made adjustments to the enrolment reporting system for the winter semester in conformity with Ministry policy. The Ministry did not communicate a change in policy for the three-semester system, according to the University. Also, the University followed criteria for establishing honours standing as approved by the Senate, and there has been a high correlation between students classified as honours and honours graduates.

The University of Toronto has been accurate in its enrolment reporting and it has met the Ministry guidelines. However, the Auditor concluded that there was the need for a reassessment due to inconsistent funding for Arts & Science students and inconsistencies in student categorization in enrolment reporting policy.

The Ministry reviewed the funding weight calculation for the University of Toronto. According to Ministry officials, a special "blended" program weight was permitted for Arts and Science students to address a loss of grants due to a shift in the proportion between Arts and Science in four- and three-year programs.

The Auditor addressed enrolment reporting matters in Section 2.9 of the 1990 Annual Report. The findings and recommendations of this audit are summarized as follows:

- "In the early years, the University received a comparable amount of funding for its Arts and Science students. However, for the last ten years, the University's special funding arrangement has provided it with significantly more funding per Arts and Science student than other universities."
- "During the 1989 fiscal year, over 1,000 students taking the Commerce program prerequisite courses were claimed as Commerce students, resulting in a claim approximately \$1.9 million higher than if they were claimed as pre-Commerce students."
- "In the Auditor's opinion, these students were not Commerce students because, as of the Ministry count dates, they had not been admitted into the University's Commerce program. Indeed, after completing the Commerce prerequisites, only 930 of these students applied to the program, and only 320 were accepted."

The Auditor expressed the view that all institutions should receive similar funding for similar students for the funding system to be equitable, and therefore the Auditor recommended that the Ministry should pursue the issue of consistency in reporting Commerce students with all Ontario universities and their respective auditors.

The Committee considered the aspects of the enrolment reporting problems as identified at the three institutions and concluded that the following subjects needed to be addressed: the revised enrolment reporting guidelines; the Ontario Operating Funds Distribution Manual and correspondence between the Ministry of Colleges and Universities and the universities.

Revised Enrolment Reporting Guidelines

The Provincial Auditor concluded that several events have contributed to the systemic enrolment reporting problems which evolved over two decades. In a letter dated 20 December 1990 to the Deputy Minister, Ministry of Colleges and Universities, the Provincial Auditor noted as follows:

- "... when enrolment-based funding was first implemented in 1967, a number of universities adopted a strategy to increase enrolment in order to increase their funding base. Those that did not adopt such a strategy were faced with a lesser share in provincial funding because of declining enrolment";
- "Pressure from such universities resulted in various modifications to the enrolment formula aimed at minimizing the impact of enrolment fluctuations. The desensitization of the enrolment impact eventually led to a very complex averaging formula . . . ";
- "The many modifications and complexities introduced to the enrolment funding formula since its inception have also led to a complex set of audit guidelines, manuals and interpretations to encourage accurate enrolment reporting. Exceptions to guidelines have also been made by the Ministry over the years."

The subject of the funding of Arts and Science students was referred to the Ontario Council on University Affairs. In October 1990 the Ministry received the response which included recommendations by the Council. The Ministry has decided that the reporting guidelines will be revised for the 1991-92 enrolment reporting cycle. These will be included in the Operating Funds Distribution Manual (1991-92 Edition). This change is to be phased in with a flexible implementation program to permit adjustments for individual institutions with respect to data used for financial purposes.

Furthermore, the Ministry has addressed the need for the monitoring of enrolment reporting, with the objective of ensuring inter-institutional

consistency. The system is to be in place at the end of the 1991-92 fiscal/enrolment reporting year. A monitoring system is under consideration.

The Committee has noted the Ministry's initiatives in response to the Provincial Auditor's findings on enrolment reporting. The review of the relevant sections of the Ontario Operating Funds Distribution Manuals has identified the need for changes in enrolment reporting and the new guidelines for the reporting of students in Honours or General Arts and Science programs will be effective in 1991-92 and 1992-93 respectively. The Committee emphasizes the importance of inter-institutional consistency in enrolment reporting and the importance of the revised reporting guidelines on data used for financial purposes. Each institution and student must be dealt with in an equitable manner.

The Committee therefore recommends that:

- 13. The Ministry shall report to the Committee on the changes effective in 1991-92 to address enrolment reporting weaknesses and the new enrolment reporting guidelines for students in Honours or General Arts and Science programs, at the end of the 1992-93 enrolment reporting cycle. These reports shall be submitted to the Committee at the end of the 1991-92 period and at the end of the 1992-93 enrolment reporting period respectively.**

The Ontario Operating Funds Distribution Manual

The Operating Funds Distribution Manual is the regulatory document for the funding distribution mechanism. It establishes eligible institutions and programs, enrolment reporting requirements and special provisions, as discussed in the Revised Enrolment Reporting Guidelines section of this Report. The Manual's (1991) stated purpose is as follows:

The purpose of a distribution mechanism or formula is to provide an objective mechanism for determining the share of the provincial operating grant to be allocated to each university. The Ontario distribution mechanism aims to ensure a reasonable degree of equity in the distribution of available government support. It does not in itself provide the basis for determining the level of such support. It should be noted that the distribution mechanism is not intended to limit or control the expenditure of funds granted to the universities, except in the case of the specifically targeted envelopes such as research overheads, faculty renewal, program adjustment and the other similar purpose grants allocated for grants-in-aid and other such activities.

The non-targeted university operating grants may be applied to any eligible university operating expenditure. Eligible expenditures include all operating expenditures, except those related to:

- (a) assisted/sponsored research;
- (b) principal and interest payments on capital indebtedness;
- (c) student aid;
- (d) ancillary enterprises;
- (e) capital projects.

The Ontario Operating Funds Distribution Manual was introduced in the 1967-68 fiscal year to address the distribution of operating funds to universities through an enrolment-based formula. The formula has been changed over the years. A major policy change resulted in the formula being used for distribution purposes rather than total support. According to the January 1991 edition of the Manual:

. . . a change in policy occurred, whereby the government determined the total available operating grant dollars, rather than the BIU [Basic Income Unit] value for the year. This resulted in the formula becoming purely a mechanism for determining the distribution of grants between

institutions, rather than the determining factor for the total amount of operating support provided. The BIU value was thereafter merely an artifact, determined by dividing the total available dollars by the total number of funding units in the system.

Other changes were introduced with respect to basing grants on previous year's enrolment rather than the present enrolment; new student counting standards were introduced such as multiple term reporting; and enrolment averaging to address enrolment fluctuations are examples of the many changes to the system.

The Committee concluded that the Manual should be simplified and in this process condensed, with the objective of reducing the complexity and possible errors and the necessity for special interpretations and Ministry exceptions. It should be an easily understood manual with increased familiarity by university administrators, rather than having a few who are conversant with the directives.

The Manual is in need of a review to assess strengths and weaknesses of the current edition with the objective of preparing a simplified version of the consolidation which had been complicated through changes in the operating grants formulation over the years. Once the numerous amendments to the funding formula have been simplified, it should be possible to address the complex audit guidelines for enrolment reporting and to resolve the difficulties associated with the Ministry exceptions to the guidelines.

The Committee therefore recommends that:

- 14. The Ontario Operating Funds Distribution Manual shall be simplified with the objective of enhancing accountability in the allocation of operating grants to Ontario universities.**

Ministry/Universities Correspondence

The Provincial Auditor identified several cases of inadequate communication of information between the Ministry of Colleges and Universities and the universities. This problem was evident in the administration of the enrolment funding mechanism. The instances discussed included the absence of approval in the case of Trent University for the change in its enrolment criteria in 1982 with respect to student program classification. The University of Guelph included former students in the enrolment count. The University of Guelph explained to the Committee that it could not be held responsible for changes in Ministry policy which were not communicated, in this case the provisions for the separate winter registration program.

The witnesses pointed out that " . . . it appears that the Ministry of Colleges and Universities has had no process in place to monitor the special rulings that have been made over the last twenty-five years in recognition of the complexity of registration practices at the graduate and undergraduate levels system-wide." The Committee has concluded that the Ministry should follow-up and verify all agreements with universities to ensure compliance with Ministry policies and procedures. All correspondence should be properly documented.

The Committee therefore recommends that:

- 15. Correspondence and agreements between the Ministry and each university shall be properly documented in all instances. The Ministry shall be responsible for follow-up to ensure that universities comply with Ministry guidelines, regulations and procedures.**

PAYROLL, PURCHASING AND PAYMENT PRACTICES

The Auditor concluded that "all three universities followed approved policies and procedures regarding payroll and payment practices." However, in the case of purchasing, exceptions were not properly documented in all cases, according to the audit reports.

Auditor's Conclusions and Findings

Trent University

We were generally satisfied that payment procedures for goods and services followed sound business practices and that controls over payroll were satisfactory. However, we were concerned that an unreasonably generous compensation package was granted to a former senior official of the University with no evidence of approval by the entire Board of Governors.

University of Guelph

Generally, established purchasing and payment procedures were followed and reflected good business practices. However, we noted:

- A substantial contract to supply microcomputer equipment was questionably awarded.
- No one had to approve the former president's personal and travel expense claim.

Although payroll and benefit transactions were well-controlled, we noted:

- At the end of his four and a half year contract in 1988, the outgoing president was given over \$100,000 to take early retirement, even though the University was under no obligation to renew his contract.

- The incoming president's contract made provisions for substantial employee benefits.

Controls over sabbatical leaves were unsatisfactory. Specifically:

- Employees on sabbatical leave often were not paid in accordance with pay rates established by University policy.
- Several employees did not comply with the policy on reporting the results of their study/research leave.

University of Toronto

University policies and procedures to encourage economical and competitive purchasing were sound, but they were often not followed. The University had satisfactory payment practices.

Overview

The Auditor concluded that the payment and payroll practices were satisfactory at Trent. The University maintains that its decision on the retirement package was approved and appropriate.

In the case of Guelph, the Auditor noted questionable bidding practices in the case of the supply, delivery and installation of microcomputers. The University had a special committee address the matter. It was discovered that the change was made in the contract due to potential service problems. There was no evidence of wrong-doing according to the review committee. Finally, the audit report concluded that financial controls were satisfactory at Guelph.

The University of Toronto addressed the Auditor's concern with by-passing the competitive quote process. The staff have been instructed to comply with the

requirement for written quotations, and the University feels that it has an adequate purchasing policy in place and steps have been taken to monitor certain purchases. Also, "tenders are now called for in accordance with the Governing Council's requirements," according to the University.

Policy Exceptions

The audit reports indicate that Trent and Guelph complied with competitive quoting requirements and that the three universities followed policies and procedures in payroll and payment. Nevertheless, policy exceptions were not always adequately documented. In the case of the University of Toronto, the "purchasing practices . . . often did not comply with established policy" according to the Auditor. Furthermore, departments were ignored in purchasing and the justification and accompanying documentation were not always provided. The Committee has concluded that policies and procedures should be followed and exceptions properly reported.

The Committee therefore recommends that:

- 16. The Ministry shall develop guidelines, in consultation with the universities, to ensure that exceptions to payroll, purchasing and payment policies are reported and documented in all cases by the universities.**

FURNITURE AND EQUIPMENT ASSETS

The Provincial Auditor reported on the asset control systems in place at the universities. The problems identified included inadequate asset accounting records and poor safeguarding methods.

Auditor's Conclusions and Findings

Trent University

Internal controls over plant assets were not yet adequate. Specifically:

- No thorough check had been done in the last 10 years to ensure that Library books and serials, reportedly worth \$6.7 million, were not missing.
- The University had only recently begun to prepare an inventory of furniture and equipment. Only \$2.2 million of the \$9.8 million worth of the reported assets had so far been identified and listed.

University of Guelph

The University's position is that the costs involved in establishing an adequate system of control over plant assets exceed the possible losses that could occur from lost or stolen assets. Accordingly, there were few central controls governing the safeguarding of assets.

University of Toronto

Control over assets was unsatisfactory. Specifically:

- The furniture and equipment listing was not complete or reliable enough to account for or control such assets. Over one third of the assets we selected from the listing either could not be accounted for or were no longer University property.
- Physical counts were insufficient and there was limited tagging or marking of assets and no loan policy for assets taken off-campus by staff.

- Almost half of the asset disposals we examined were transacted without obtaining the required fair market value assessments or approvals.

Overview

Trent has completed a furniture and equipment inventory, which is audited annually by their external auditors. The new computerized library system will identify lost and stolen books.

The Auditor's report indicated the inadequate cataloguing of assets at Guelph. The University is of the opinion that assets are adequately safeguarded, for example, in the library holdings system and the locking of office equipment. Items are insured and lists maintained. Major equipment such as vehicles and the art collection is on an inventory. The University does not have a central inventory listing of all fixed assets as it is believed that the cost would be prohibitive. The University has responded to the Auditor's concerns through a departmental information statement on ways to improve the safeguarding of assets. Also, a loan policy for fixed assets is being developed.

The University of Toronto was notified of the need to adhere to existing procedures and in response, the policy has been reviewed to clarify the objectives. Also, the University is developing a suitable accounting provision for library losses because an annual count of books is not practical.

Inventory/Asset Control

The University of Guelph explained the difficulties with a central asset inventory system to monitor mobile farm equipment for example and the excessive costs of such a system. Trent University has an inventory listing and Toronto's inventory system was ineffective at the time of the audits.

The Provincial Auditor endorsed a decentralized inventory approach on an individual department basis and concluded that the three institutions did not have adequate accountability systems. The Auditor pointed to the need for a periodic asset count. This is difficult when assets were not identified, formal loan policies were not in effect and in some cases asset disposals were not reported. The audit reports concluded that asset accounting records and the physical safeguarding of assets were inadequate at the three institutions.

According to the Auditor, a decentralized system would be a viable approach:

. . . if a decentralized approach is used where individual departments would update inventory records annually, a limited random testing of asset existence by one employee from the central area would tighten control significantly with minimum costs. Proper establishment of and compliance with policies to identify, lend and dispose of assets would also provide better safeguarding of assets.

The Chief Financial Officers, Ontario Universities, are currently preparing a report on a "fixed assets inventory system" for universities.

The Committee has concluded that the Ministry of Colleges and Universities should discuss this problem with the universities and consult with the appropriate university officials. The objective is the development of asset inventory and protection guidelines covering periodic counts, asset identification and loan and disposal policies. A decentralized format, with reporting by individual departments, based on inventory records should be considered.

The Committee therefore recommends that:

- 17. The Ministry of Colleges and Universities, in consultation with the universities, shall establish guidelines to assist universities in developing controls for the inventory and protection of assets. The**

type of assets and the cost of a decentralized asset inventory listing system shall be taken into account in developing a feasible asset accounting system.

RESTRICTED FUNDS AND TARGETED PROGRAMS

Overview

The inspection audits were limited to Ministry transfer payments which prevented the Auditor from auditing restricted funds. According to the Auditor,

. . . we could examine only expenditures from the operating fund and some capital fund items of universities. However, when there is any operating surplus, the disposition of that operating surplus is at the discretion of the universities. Surplus, when transferred out of the operating fund, is beyond the scope of our audit.

At issue is the point that operating funds may be transferred to a restricted fund. According to the Auditor, he is not able "to determine the accounting controls or subsequent disposition of the transfer to these funds."

The Ministry explained to the Committee that the conditions under which the universities receive general purpose operating grants and specific targeted funds have "specific accountability and reporting measures to ensure that their expenditures by the universities achieve the purposes for which they were intended."

The University of Toronto recently announced new policies and procedures to ensure accountability standards in areas such as research. The University has stressed the importance of sound financial management for research funds. A new policy on Ethical Conduct in Research, more extensive reviews of departmental and research expenditures and improved financial reporting in an

enhanced Financial Information System were designed to enhance accountability at the University of Toronto.

Restricted Funds

As the university inspection audits were limited to transfer payments, the Auditor addressed operating funds and certain capital fund expenditures. Of concern to the Committee is the transfer of any surplus from the operating fund to another account beyond the authority of an inspection audit. For example, an operating surplus moved to a restricted fund would not be investigated under an inspection audit.

The Ministry explained that "the non-targeted university operating grants may be applied to any eligible university operating expenditure. Eligible expenditures include all operating expenditures except those related to assisted/sponsored research; principal and interest payments on capital indebtedness, student aid, ancillary enterprises and capital projects." A university may move these funds into restricted funds. The Ministry explained that they are notified of inter-fund transfers as reported in the audited financial statements on the universities and in the report of the Council of Ontario Universities.

The Committee expressed concern that funds from the operations grant may be moved to a restricted fund and possibly be used for undisclosed purposes, such as private research. Although the Members are not aware of such cases, universities shall report to the Ministry on the source and use of monies in restricted funds and these records shall be available to the Provincial Auditor for audit purposes and full disclosure to the public.

The Committee therefore recommends that:

- 18. The Ministry shall require that universities submit a detailed report to the Ministry on the use of government funds transferred to a restricted fund. Amendments to the Audit Act shall permit the Provincial Auditor to have access to restricted accounts through value for money audits.**

Operating Grants Targeted Programs

The Committee requested supplementary information from the Ministry on "operating grants targeted programs." In the review of these funds, the Members expressed concern that the reporting requirements varied. One fund required an annual report and another did not require an audited report. In the case of Research Overheads/Infrastructure Grants, audit reports are not required.

The Committee concluded that the reporting requirements for targeted programs should be standardized with an annual report or audit report as a minimum requirement.

The Committee therefore recommends that:

- 19. The Ministry shall develop a policy requiring that universities submit an annual report and/or audit for all Operating Grants Targeted Programs.**

***LIST OF RECOMMENDATIONS FOR
THE SCHOOL BOARDS AND UNIVERSITIES***

Inspection Audits of the School Boards

1. The Ministry of Education in consultation with the Provincial Auditor, shall review the factors relating to the subject of local accountability within school boards, particularly the external audit process, with the objective of recommending options to improve accountability.
2. The Ministry of Education shall report to the Committee within 12 months on the status of the initiatives to clarify tendering policies and to standardize transportation and enrolment audits on a province-wide basis.
3. The Audit Act shall be amended to provide the Provincial Auditor with the discretionary authority to perform value for money audits of any government agency and all transfer payment recipients
4. An audit committee shall be a legal requirement for all school boards as it is a necessary component in the accountability process. These committees should be comprised of members from the general public, in addition to school board trustees.
5. Professional firms, such as accountants and lawyers, providing services to school boards, shall be reviewed on a regular basis, at least every five years, although a change of firms may not be necessary. The Ministry of Education shall pursue this recommendation through legislative amendments.
6. The Ministry of Education shall explore options to promote the sharing of school board resources as a cost saving measure. Current resource-sharing practices by some boards should be encouraged on a province-wide basis, on items such as:
 - transportation;
 - information systems;
 - purchasing; and
 - professional development should be encouraged on a province-wide basis.

The Ministry shall prepare a "resource sharing policy" with appropriate incentives and sanctions to encourage school boards to pursue this approach.

7. When the Ministry of Education allocates monies to the Boards of Education on a "designated program basis," specific program objectives shall ensure that funds are spent as intended and stress the need for improving monitoring of special grants. Accountability would be facilitated if programs were identified in "funding envelopes," rather than allocating Ministry grants in a single undifferentiated payment.
8. The current "localized bargaining system" for teachers shall be the subject of a Ministry of Education review. This process has raised concerns among trustees, administrators and the Ministry of Education.

Inspection Audits of the Universities

9. Amendments to the Audit Act shall be introduced in the House, for first reading, by December 31, 1991 to provide the Provincial Auditor with the discretionary authority to perform value for money audits of any government agency and all transfer payment recipients. In the case of universities, this audit approach will help to address the management accountability of each university's administration, while at the same time respecting the academic autonomy of these institutions.
10. The Ministry of Colleges and Universities, in consultation with the universities, shall develop administrative guidelines for an enhanced management accountability mechanism, based on the principles of economy, efficiency and standards/procedures to measure effectiveness in universities. Through these management guidelines, the Ministry shall establish standards, for example, to assist universities in developing asset accounting records and to acquire supplies, equipment and services based on management principles.
11. The Ministry of Colleges and Universities shall report to the Committee within 12 months on initiatives proposed by the universities to clarify the accountability relationship between universities' administrators/boards of governors and the Ministry.
12. The Ministry of Colleges and Universities shall analyze the universities' financial statements and as necessary consult with the universities to prepare recommendations to avoid unnecessary deficit problems and the need for special funding.
13. The Ministry shall report to the Committee on the changes effective in 1991-92 to address enrolment reporting weaknesses and the new enrolment reporting guidelines for students in Honours or General Arts and Science programs, at the end of the 1992-93 enrolment reporting cycle. These reports shall be submitted to the Committee at the end of

the 1991-92 period and at the end of the 1992-93 enrolment reporting period respectively.

14. The Ontario Operating Funds Distribution Manual shall be simplified with the objective of enhancing accountability in the allocation of operating grants to Ontario universities.
15. Correspondence and agreements between the Ministry and each university shall be properly documented in all instances. The Ministry shall be responsible for follow-up to ensure that universities comply with Ministry guidelines, regulations and procedures.
16. The Ministry shall develop guidelines, in consultation with the universities, to ensure that exceptions to payroll, purchasing and payment policies are reported and documented in all cases by the universities.
17. The Ministry of Colleges and Universities, in consultation with the universities, shall establish guidelines to assist universities in developing controls for the inventory and protection of assets. The type of assets and the cost of a decentralized asset inventory listing system shall be taken into account in developing a feasible asset accounting system.
18. The Ministry shall require that universities submit a detailed report to the Ministry on the use of government funds transferred to a restricted fund. Amendments to the Audit Act shall permit the Provincial Auditor to have access to restricted accounts through value for money audits.
19. The Ministry shall develop a policy requiring that universities submit an annual report and/or audit for all Operating Grants Targeted Programs.

APPENDIX A
Terms of Reference:
The Standing Committee on Public Accounts

APPENDIX A: TERMS OF REFERENCE

The Standing Committee on Public Accounts is established pursuant to the Standing Order 104(j). Its permanent terms of reference, as set out in the Standing Orders, are as follows:

104(j) Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available.

APPENDIX B: WITNESS LIST
INSPECTION AUDITS OF THE SCHOOL BOARDS

MINISTRY OF EDUCATION

*Dina Palozzi, Assistant Deputy Minister,
Administration Division*
*Mark Larratt-Smith, Assistant Deputy Minister,
Corporate Planning and Policy Division*
*Ray Chenier, Assistant Deputy Minister,
Learning Services Division*

YORK REGION ROMAN CATHOLIC SEPARATE SCHOOL BOARD

Joseph Virgilio, Chair
*Frank S. Bobesich, Director of Education and
Secretary Treasurer of the Board*
John A. Sabo, Divisional Superintendent of Business Affairs

LAKEHEAD BOARD OF EDUCATION

Margo Remus Joseph, Chair
Jim McCuaig, Director of Education
Robert Allison, Superintendent, Business and Plant

APPENDIX C
Schedule of Hearings: Inspection Audits of the Universities

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